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Supreme Court, U.S.
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No. 06-

IN THE
Supreme Court of the United States

LORILLARD TOBACCO COMPANY,
Petitioner,

v.

ISAAC G. ENGIDA, D.B.A. I & G LIQUORS,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE TENTH CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether undisputed evidence that a retailer sold counterfeit goods establishes "irreparable harm" that supports the entry of a preliminary injunction in a trademark infringement case. The Tenth Circuit, in conflict with other circuits, held that it does not.

2. Whether a court, when balancing the hardships for purposes of a preliminary injunction motion in a counterfeiting case, may consider: (i) harm to the retailer that results from incurring a known risk of infringement; (ii) monetary harm to the retailer from lost sales if the injunction is granted; (iii) the retailer's difficulty in distinguishing counterfeit goods from genuine goods; and (iv) the size of the retailer's business. The Tenth Circuit, in conflict with other circuits, held that the court may deny a motion for a preliminary injunction on the basis of these factors.

PARTIES TO THE PROCEEDINGS AND RULE 29.6 STATEMENT

The parties to the proceedings in the Ninth Circuit were Petitioner Lorillard Tobacco Company and Respondent Isaac G. Engida d.b.a. I and G Liquors. No other party appeared in any proceeding below. Pursuant to Supreme Court Rule 29.6, the following names all parent companies and subsidiaries (except wholly owned subsidiaries) of the petitioner:

Lorillard Tobacco Company is wholly owned by Lorillard, Inc., which is wholly owned by Loews Corporation. There is no other publicly held corporation that owns 10% or more of Petitioner.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner respectfully petitions for a writ of certiorari to review a judgment of the United States Court of Appeals for the Tenth Circuit. The Tenth Circuit affirmed the denial of a preliminary injunction in a counterfeiting case under the Lanham Act, 15 U.S.C. § 1051 *et seq.*, despite undisputed evidence that Respondent, a retailer, sold counterfeit goods. The court of appeals' decision conflicts with decisions of the Sixth and Eleventh Circuits. The reasons the Tenth Circuit gave for its decision are unsatisfactory and create further conflicts with other courts of appeals.

First, the Tenth Circuit, applying circuit precedent, held that a trademark owner's loss of exclusive use of its mark does not necessarily satisfy the "irreparable harm" factor necessary for a preliminary injunction. This holding conflicts with decisions of several other courts of appeals.

Second, the Tenth Circuit's decision conflicts with decisions of other circuits holding that harm the defendant brings upon himself, particularly from illegal activity, should not be weighed in the balance of harms.

Third, the Tenth Circuit held that potential monetary harm to Respondent in the form of lost sales from a preliminary injunction outweighed the harm to Petitioner from the sale of more counterfeit products in the absence of an injunction. The court of appeals' ruling conflicts with decisions of other courts of appeals that weigh only the defendant's *irreparable* harms, and thus exclude consideration of monetary harms.

Fourth, the Tenth Circuit held that it was appropriate for the district court to deny a preliminary injunction against further sales of counterfeit goods if: (i) the retailer is a small company, (ii) the retailer allegedly sold counterfeit goods on only one occasion,

(iii) the retailer did not intend to sell counterfeit goods, or (iv) the counterfeit goods are difficult to distinguish from genuine goods. These rulings conflict with decisions of other courts of appeals, which reject each of these arguments.

OPINIONS BELOW

The opinion of the court of appeals, App., *infra*, 1a-6a, and the order of the district court, App., *infra*, 7a, are unreported.

JURISDICTION

The judgment of the court of appeals was entered on January 8, 2007. App., *infra*, 1a. A petition for rehearing was denied on January 25, 2007. App., *infra*, 8a. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

The relevant provisions of the Lanham Act are reproduced in the Appendix, App., *infra*, 9a-19a.

STATEMENT OF THE CASE

1. **The Counterfeiting Problem.** Counterfeit goods display a false trademark that is identical to, or substantially indistinguishable from, a genuine trademark. *See* Lanham Act § 45, 15 U.S.C. § 1127 (defining a "counterfeit" as "a spurious mark which is identical with, or substantially indistinguishable from, a registered mark"). Counterfeit goods typically imitate a well-known product, so that customers are deceived into thinking they are purchasing genuine goods. "Thus, counterfeiting is 'hard core' or 'first degree' trademark infringement.'" 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 25:10, at 25-24 (4th ed. 2007).

Counterfeiting is a serious economic problem. U.S. businesses lose an estimated $200 billion to $250 billion each year as a result of counterfeiting.[1] Seizures of goods that violate intellectual property rights have increased substantially at U.S. ports in recent years. In 2006, there were 14,675 seizures, representing an 83 percent increase over 2005 levels.[2] The U.S. Chamber of Commerce estimates that 750,000 U.S. jobs have been lost as a result of counterfeit goods, which frequently are manufactured in other countries using exploitative labor practices.[3] On a worldwide basis, the World Customs Organization estimates that counterfeiting accounts for five to seven percent of global merchandise, and resulted in lost sales of up to $514 billion in 2004.[4]

In addition to causing economic harm, counterfeit goods present serious threats to the safety and even the lives of consumers. Counterfeit brake parts have been

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[1] U.S. News & World Report, July 14, 2003, at 46-47 (reporting FBI estimate of $200-$250 billion each year); U.S. Chamber of Commerce, *The Cost of Counterfeiting and Piracy*, at 3, *available at* http://www.thetruecosts.org/portal/truecosts/resources/default (estimating costs of $200-250 billion per year); 142 Cong. Rec. H5776, H5778 (June 4, 1996) (remarks of Rep. Moorehead) (1996 estimate of $200 billion per year).

[2] Department of Homeland Security, U.S. Customs and Border Protection, Seizure Statistics for Intellectual Property Rights, *available at* http://www.cbp.gov/xp/cgov/import/commercial_enforcement/ipr/seizure/seizure_stats.xml.

[3] *See The Cost of Counterfeiting and Piracy*, *supra* n.1 at 7; Edward J. Kelly, Blood Money: The Steep Human Cost of the Counterfeit Culture, International Anti-Counterfeiting Coalitions Annual Fall Conference, Oct. 6, 2005.

[4] *Business Week*, Feb. 7, 2005, at 56. *See also* U.S. News & World Report, July 14, 2003, at 46-47 (International Chamber of Commerce estimates that pirated goods accounted for up to 8 percent of world trade, or $375 billion, in 2003).

found to cause automobile accidents.[5] Counterfeit airplane parts "have found their way into the inventory of every commercial airline in the country,"[6] and have been implicated in fatal airline crashes.[7] In 1995, the Food and Drug Administration issued a warning about sales of counterfeit infant formula in 16 States.[8] The World Health Organization has estimated that 8 percent of medicines worldwide are counterfeit; in poorer countries, an estimated 25 percent of all medicines are counterfeit.[9] It has been reported that "[h]undreds if not thousands of people have died" from counterfeit medicines.[10]

Counterfeiting has also been linked to terrorist activity. The U.S. General Accounting Office has reported that "terrorists earn funds through highly profitable crimes involving commodities such as contraband

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[5] Jed S. Rakoff & Ira B. Wolff, *Commercial Counterfeiting and the Proposed Trademark Counterfeiting Act*, 20 Am. Crim. L. Rev. 145 (1982).

[6] *Business Week*, June 10, 1996, at 84.

[7] *Id.* (reporting that, according to FAA records, "from 1973 to 1993 bogus parts played a role in at least 166 U.S.-based aircraft accidents or less serious mishaps."); C. Gutierrez, et al., *Countering Counterfeits*, Wall St. J., June 20, 2006 (reporting that crash of a Concorde supersonic airplane at de Gaulle Airport in Paris may have been due to a counterfeit part that fell off another airplane).

[8] 42 Cong. Rec. H5776, H5779 (June 4, 1996) (remarks of Rep. Goodlatte).

[9] U.S. News & World Report, July 14, 2003, at 46-47.

[10] Newsweek, Nov. 5, 1990, at 36 (quoting Susan Foster, a health economist at the London School of Hygiene and Tropical Medicine). *See also* H. Von Tesoriero, *Fake Drug Sites Keep a Step Ahead*, Wall St. J., Aug. 10, 2004 (reporting that head of WorldExpressRx.com pleaded guilty to criminal charges resulting from sales of counterfeit brand name drugs).

cigarettes, counterfeit goods, and illicit drugs."[11] Congressional hearings have produced evidence that terrorist organizations such as Hezbollah have raised millions of dollars through counterfeit goods, including counterfeit cigarettes.[12]

2. Congress's Response to the Counterfeiting Problem. Congress has responded to the serious problem of counterfeiting with special legislation. The Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, 98 Stat. 1837 (1984), makes intentional trafficking in counterfeit goods a federal crime, *see* 18 U.S.C. § 2320. Congress recognized that government enforcement efforts alone have proven insufficient to stem the tide of counterfeiting, and thus the 1984 legislation granted federal judges authority to issue *ex parte* seizure orders in response to applications from trademark owners.[13]

In 1996, in response to continued increases in counterfeiting despite the 1984 legislation, Congress enacted the Anticounterfeiting Consumer Protection Act of 1996, Pub. L. No. 104-153, 110 Stat. 1386 (1996). The 1996 Act increases the penalties for counterfeiting and adopts additional procedures to combat it. Section 6 of the 1996 Act authorizes seizures of counterfeit goods

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[11] U.S. General Accounting Office, Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Financing Mechanisms (Nov. 2003), at 3.

[12] Hearing before the House Committee on International Relations, Intellectual Property Crimes: Are Proceeds From Counterfeited Goods Funding Terrorism?, 108th Cong., 1st Sess. 7 (2003).

[13] *See generally* J. Joseph Bainton, *Seizure Orders: An Innovative Judicial Response to the Realities of Trademark Counterfeiting*, 73 Trademark Rep. 459, 462-63 (1983) (discussing seizure orders).

pursuant to a court order by any federal, state, or local law enforcement officer. *Id.*, 110 Stat. at 1388; 15 U.S.C. § 1116(d)(9). In addition, the 1996 Act adopted statutory damages provisions that authorize awards of $500 to $100,000 per counterfeit mark per type of good. 110 Stat. at 1388; 15 U.S.C. § 1117(c). For willful violations, the Act authorizes damages of up to $1 million. *Id.*

Most recently, in 2006, Congress enacted the Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, 120 Stat. 285 (2006). The 2006 Act expands criminal prohibitions on trafficking in counterfeit goods to include trafficking in counterfeit labels or other fake packaging. The Act also requires courts to order the destruction of counterfeit products seized as part of a counterfeiting investigation, and to order counterfeiters to forfeit profits and equipment used in the counterfeiting operation and to pay restitution to the legitimate owner of an affected mark.

3. This Case. Petitioner is a leading cigarette manufacturer in the United States. Petitioner has registered five trademarks that appear on each package of Newport cigarettes, its best selling brand.[14] On January 31, 2006, Petitioner's employees purchased two packages of counterfeit Newport brand cigarettes from Respondent, a retailer in Denver, Colorado.

Petitioner filed a complaint in federal district court alleging that Respondent had violated the anti-counterfeiting provisions of Sections 32 and 43 of the Lanham Act, 15 U.S.C. §§ 1114 and 1125. The district court granted Petitioner's request for an *ex parte* seizure

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[14] Petitioner's trademarks are registered with the Patent and Trademark Office at Registration Nos. 1,920,066 (LORILLARD); 1,108,876 (NEWPORT); 2,600,870 (NEWPORT (stylized)); 1,178,413 (Spinnaker Design); and 1,191,816 (NEWPORT and Design).

order pursuant to Section 34 of the Lanham Act, 15 U.S.C. § 1116(d).

U.S. Marshals sought to execute the seizure order at Respondent's business during regular business hours. They found the doors locked, even though a lighted "open" sign was displayed and the officers could see that lights were on and a television was playing inside the store. After waiting for some time, the officers departed for the day. When they returned the next day, they found no counterfeit (or genuine) Newport cigarettes, and only 20 packages of cigarettes of any kind. The officers did, however, discover business records indicating the Respondent purchased Newport and other cigarettes from an unknown source outside of ordinary distribution channels. App., *infra*, 2a.

The district court denied Petitioner's motion for a preliminary injunction prohibiting Respondent from selling any additional counterfeit cigarettes. The district court did not issue a written opinion, but indicated in comments from the bench that it denied the motion because Respondent is a small business ("He's a . . . small business"), because Petitioner found only two packages of counterfeit cigarettes ("I need something more substantial than two packages of cigarettes"), and because the court inferred that Respondent did not intend to sell counterfeit goods ("The most reasonable inference that I can make . . . is that he happened to accidentally come into possession in his business of two packages of – purported trademark violations of two packages of cigarettes."). *Id.* at 4a-5a.

A panel of the U.S. Court of Appeals for the Tenth Circuit affirmed the denial of a preliminary injunction. The court of appeals stated that a trademark owner seeking a preliminary injunction must establish, among other factors, that it will suffer irreparable harm. *Id.* at 3a. The court stated that "[i]n defining the contours of irreparable harm," "the injury must be certain and great"

and not "merely serious or substantial." App., *infra*, 5a, quoting *Dominion Video Satellite, Inc.* v. *Echostar Satellite Corp.*, 356 F.3d 1256, 1262 (10th Cir. 2004) (internal marks omitted). Although Respondent was shown to have sold packages of counterfeit Newport cigarettes, the court of appeals held that this fact does "not necessarily" establish "certain and great harm." *Id.* The court held that the lack "of additional counterfeit Newport® cigarettes" found during the officers' execution of the seizure order undermined Petitioner's claim of future injury. App., *infra*, 5a.

The court of appeals rejected Petitioner's argument "that a prima facie case of trademark infringement establishes irreparable harm, per se." *Id.* Instead, the court held that the potential harm to Respondent if an injunction were granted outweighed the harm that Lorillard would suffer in the absence of an injunction. In particular, the court stated that because "the counterfeit packages are so similar to genuine packages[,] an injunction would probably require [Respondent] to stop selling *any* Newport® cigarettes while the suit was pending." *Id.* at 6a (emphasis in original). The court thus concluded that Respondent's lost sales of Newport cigarettes while the case is pending outweighed the potential harm to Petitioner from additional sales of counterfeit products that infringe its trademarks, and the quality of which Petitioner cannot control. In addition, the court of appeals rejected Petitioner's argument that Respondent would not be harmed by an injunction prohibiting activity already deemed illegal under the Lanham Act – further sales of counterfeit goods. *Id.*

The court of appeals noted Respondent's contention that this Court's decision in *eBay, Inc.* v. *MercExchange, L.L.C.*, 126 S. Ct. 1837, 1840-41 (2006), "disapproved the use of categorical rules in connection with injunctive relief in intellectual property actions." App., *infra*, 5a. The court of appeals elected not to

address that argument, relying instead on its analysis of the balance of hardships and its determination that Petitioner failed to establish "certain and great harm" from the denial of an injunction.

The court of appeals further held that "the district court did not clearly err in taking account of [Respondent's] status as a small business," and that this factor indicates "that an injunction would weigh more heavily on [Respondent] than the lack of one would affect [Petitioner]." App., *infra*, 6a.

REASONS FOR GRANTING THE WRIT

The court of appeals has decided important questions of trademark law in a way that conflicts with decisions of other courts of appeals. The practical effect of the court of appeals' decision is to undermine Congress's decision to adopt a "zero tolerance" policy to combat the serious problem of counterfeiting. Further review by this Court is warranted to resolve the conflicts in the lower courts and to preserve the effectiveness of federal anti-counterfeiting statutes.

I. The Tenth Circuit's Opinion Conflicts With Decisions Of Other Circuits On Important Questions Of Trademark Law.

"In order to succeed on the merits of a trademark infringement claim, [plaintiff] must show that the [defendant] used the mark in commerce without its consent and 'that the unauthorized use was likely to deceive, cause confusion, or result in mistake.'" *Int'l Cosmetics Exch., Inc.* v. *Gapardis Health & Beauty, Inc.*, 303 F.3d 1242, 1248 (11th Cir. 2002). When a defendant sells counterfeit goods, "[t]here can be no dispute that the parties' concurrent use of the [mark] poses a substantial likelihood of confusion among consumers." *Id.* at 1248-49.

A retailer is strictly liable for selling counterfeit merchandise. *See Hard Rock Café Licensing Corp.* v.

Concession Servs., Inc., 955 F.2d 1143, 1152 n.6 (7th Cir. 1992) ("Sellers bear strict liability for violations of the Lanham Act."). The plaintiff in a trademark infringement action is not required to show that the defendant intentionally infringed the trademark. *See Davis* v. *Walt Disney Co.*, 430 F.3d 901, 904 (8th Cir. 2005) ("[P]roof of bad intent is not required for success" in a trademark action.); *AutoZone, Inc.* v. *Tandy Corp.*, 373 F.3d 786, 799 (6th Cir. 2004) ("Proving intent is not necessary to demonstrate likelihood of confusion."). The retailer's intent affects the amount of statutory damages, but is not a defense to liability.

The courts of appeals have developed slightly different formulations of the traditional test to determine the propriety of entering a preliminary injunction in a trademark case, but all consider the same essential factors. 5 *McCarthy* § 30.32, at 30-71 to 30-81. The First Circuit's factors are typical. The court considers: "(1) the likelihood of the movant's success on the merits; (2) the anticipated incidence of irreparable harm if the injunction is denied; (3) the balance of relevant equities (*i.e.*, the hardship that will befall the nonmovant if the injunction issues contrasted with the hardship that will befall the movant if the injunction does not issue); and (4) the impact, if any, of the court's action on the public interest." *Borinquen Biscuit Corp.* v. *M.V. Trading Corp.*, 443 F.3d 112, 115 (1st Cir. 2006).

In this case, it is undisputed that Petitioner demonstrated a likelihood of success on the merits by presenting unchallenged evidence that Respondent sold counterfeit Newport cigarettes. Moreover, there is no dispute that the public interest favors an injunction. "[A]s a matter of public policy, trademarks should be protected against infringing uses." *Id.*; *see also Park 'n Fly* v. *Dollar Park & Fly, Inc.*, 469 U.S. 189, 193 (1985) ("Congress determined that 'a sound public policy requires that trademarks should receive nationally the

greatest protection that can be given them.'"). The public interest in enjoining further sales of counterfeit goods is particularly strong, given that counterfeiting is "hard core" trademark infringement that has been repeatedly condemned by Congress.

The Tenth Circuit's holdings with respect to the remaining preliminary injunction factors – irreparable harm and the balance of hardships between the parties – conflict with the holdings of other courts of appeals.

A. The Tenth Circuit's Holding That Sale Of Counterfeit Goods Is Not Sufficient To Establish Irreparable Harm Is Contrary To Decisions Of Other Circuits.

1. The court of appeals held that undisputed evidence showing Respondent infringed Petitioner's trademarks by selling counterfeit products did "not necessarily" demonstrate the "certain and great" harm that is a prerequisite to a preliminary injunction in the Tenth Circuit. App., *infra*, 5a. This holding conflicts with decisions of other circuits. As a leading treatise on trademark law has recognized, "trademark infringement damages are by their nature irreparable," and "[t]he majority of courts will find sufficient irreparable injury to grant a preliminary injunction" when defendant's products cause a likelihood of confusion. 5 *McCarthy* § 30:47, at 30-109.

The court of appeals' decision conflicts with the Sixth Circuit's decision in a virtually identical counterfeiting case, *Lorillard Tobacco Co.* v. *Amouri's Grand Foods, Inc.*, 453 F.3d 377 (6th Cir. 2006). In *Grand Foods*, as in this case, Lorillard's representative discovered that a retailer was selling counterfeit Newport cigarettes. As in this case, Lorillard moved for an *ex parte* seizure order under 15 U.S.C. § 1116 and a preliminary injunction. In both this case and *Grand Foods*, the

district court granted the *ex parte* order but subsequently denied Lorillard's request for a preliminary injunction. The Sixth Circuit in *Grand Foods* – unlike the Tenth Circuit in this case – reversed the denial of the preliminary injunction and directed the district court to enter a preliminary injunction against the retailer. *Grand Foods* is virtually identical to this case, and thus exemplifies the conflict between the Tenth Circuit and other courts of appeals.

The Sixth Circuit held in *Grand Foods* that each of the four preliminary injunction factors favored the entry of a preliminary injunction. *First*, the court held that the retailer's sale of counterfeit merchandise established that Lorillard was likely to succeed on the merits.

Second, the Sixth Circuit held that "'irreparable injury' "ordinarily follows when a likelihood of confusion or possible risk to reputation appears from infringement or unfair competition."'" *Id.* at 382, quoting *Circuit City Stores, Inc.* v. *CarMax, Inc.*, 165 F.3d 1047, 1056 (6th Cir. 1999), quoting, in turn, *Wynn Oil Co.* v. *Am. Way Serv. Corp.*, 943 F.2d 595, 608 (6th Cir. 1991)). The harm in a counterfeiting case stems from the trademark owner's "loss of control over the quality of goods that bear its marks." *Id.*, citing *El Greco Leather Prods. Co.* v. *Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986). Accordingly, the court held that where "[g]oods are being offered for sale that purport, via their use of Lorillard's marks, to have been produced by Lorillard, but that were not," the irreparable harm element is established. *Id.*

Third, the Sixth Circuit held that Grand Foods had not established that it would be harmed by the entry of a preliminary injunction. The court noted that the "harm" visited upon Grand Foods "is hardly a legally cognizable one," since the preliminary injunction simply

prohibited it from selling counterfeit goods, which is "an illegal act to begin with." *Id.*[15]

Fourth, the Sixth Circuit held that the public interest "points strongly in favor of granting injunctive relief" because an injunction "would advance two fundamental purposes of trademark law: preventing consumer confusion and deception in the marketplace and protecting the trademark owner's property interest in the mark." *Id.* at 383.

Like the Sixth Circuit in *Grand Foods* – and contrary to the Tenth Circuit's opinion here – the Eleventh Circuit has held that a trademark owner is entitled to a preliminary injunction where the defendant has sold counterfeit merchandise. In *International Cosmetics Exchange, Inc.* v. *Gapardis Health & Beauty, Inc.*, 303 F.3d 1242 (11th Cir. 2002), the court affirmed the district court's holding that where the evidence shows a party was selling counterfeit merchandise, "'the threatened injury to [the trademark owner] outweighs any harm to [the opposing party] in preventing it from selling product supplied by third parties." *Id.* at 1249.

As in *Grand Foods*, the court of appeals held that "there can be no dispute" that a concurrent counterfeit use of a registered mark poses "a substantial likelihood of confusion among consumers," and that the plaintiff "demonstrated a substantial threat of irreparable injury if injunctive relief was not granted." *Id.* at 1248-49; *see also Levi Strauss & Co.* v. *Sunrise Int'l Trading*, 51 F.3d 982, 986 (11th Cir. 1995) ("There is no doubt that the

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[15] The Sixth Circuit specifically rejected the argument that Grand Foods would be harmed as a result of the difficulty of distinguishing counterfeit merchandise from genuine merchandise. That aspect of the Sixth Circuit's decision, which creates an additional conflict with the Tenth Circuit's decision in this case, is discussed in Part I.B., *infra*.

continued sale of . . . counterfeit jeans would damage [plaintiff's] business reputation and decrease its legitimate sales. This court has previously stated that such trademark infringement 'by its nature causes irreparable harm.'" quoting *Tally-Ho, Inc.* v. *Coast Community College District*, 889 F.2d 1018, 1029 (11th Cir. 1989)).

The decisions of the Sixth and Eleventh Circuits in *Grand Foods* and *Levi Strauss* are in accord with decisions of six other circuits holding that that the damage inflicted on a trademark owner from infringement is by its nature irreparable, and sufficient to establish the irreparable harm element of the preliminary injunction test.[16] Under the law in a majority of the

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[16] *E.g.*, *Kos Pharmaceuticals, Inc.* v. *Andrx Corp.*, 369 F.3d 700, 726 (3d Cir. 2004) ("[L]ack of control over one's mark 'creates the potential for damage to . . . reputation[, which] constitutes irreparable injury for the purpose of granting a preliminary injunction in a trademark case.'" (alterations in original), quoting *Opticians Ass'n of Am.* v. *Indep. Opticians of Am.*, 920 F.2d 187, 196 (3d Cir. 1990)); *Brennan's Inc.* v. *Brennan's Restaurant, L.L.C.*, 360 F.3d 125, 129 (2d Cir. 2004) ("In a trademark infringement case, proof of a likelihood of confusion establishes both a likelihood of success on the merits and irreparable harm."); *Ty, Inc.* v. *The Jones Group, Inc.*, 237 F.3d 891, 902 (7th Cir. 2001) ("[D]amages occasioned by trademark infringement are by their very nature irreparable and not susceptible of adequate measurement for remedy at law." (citation omitted)); *Societe des Produits Nestle, S.A.* v. *Casa Helvetia, Inc.*, 982 F.2d 633, 640 (1st Cir. 1992) ("[I]rreparable harm flows from an unlawful trademark infringement as a matter of law."); *see also, e.g.*, *GoTo.com, Inc.* v. *Walt Disney Co.*, 202 F.3d 1199, 1205 n.4 (9th Cir. 2000) ("In a trademark infringement claim, 'irreparable injury may be presumed from a showing of likelihood of success on the merits.'"), quoting *Brookfield Commc'ns, Inc.* v. *West Coast Entm't Corp.*, 174 F.3d 1036, 1066 (9th Cir. 1999); *General Mills, Inc.* v. *Kellogg Co.*, (...continued)

federal courts of appeals, Respondent's sale of counterfeit goods in violation of Petitioner's trademark demonstrated irreparable harm to Petitioner. This broad agreement among the courts of appeals has been noted both by the courts and by the leading treatise on trademarks. *See, e.g., Ferrellgas Ptnrs., L.P.* v. *Barrow*, 143 Fed. App'x. 180, 191 n.12 (11th Cir. 2005) (collecting cases); 5 *McCarthy* § 30:47, at 30-109. The Tenth Circuit's contrary decision in this case warrants the Court's review to resolve this disagreement in the courts of appeals and to further the important interests safeguarded by the Lanham Act and federal anti-counterfeiting laws at a time when the United States and other countries are being inundated by counterfeit goods.

2. The Tenth Circuit suggested, without deciding, that this Court's decision in *eBay, Inc.* v. *MercExchange, L.L.C.*, 126 S.Ct. 1837 (2006), may be applicable to trademark infringement cases under the Lanham Act, including counterfeiting cases. In *eBay*, this Court rejected a categorical rule that patent owners are entitled to a permanent injunction in all cases of patent infringement. The Court held instead that the traditional four-factor test applied by courts of equity when considering whether to enter a permanent injunction applies to disputes arising under the Patent Act. *Id.* at 1839. The Court's opinion in *eBay* does not discuss trademark infringement under the Lanham Act. Nor does it question the well-established principle that trademark infringement, by its nature, causes irreparable injury to the trademark owner.

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824 F.2d 622, 625 (8th Cir. 1987) ("[A] showing of irreparable injury can be satisfied if it appears that [the trademark owner] can demonstrate a likelihood of consumer confusion.").

Petitioner need not argue in this case that trademark owners are categorically entitled to a preliminary injunction in every case of trademark infringement. When counterfeiting is shown, however, a strong factual predicate necessarily exists for injunctive relief when applying the traditional equitable factors. For example, where counterfeiting has been shown, there is no question of likelihood of success on the merits or likelihood of confusion. Counterfeit products go well beyond confusion; they are intended to deceive.[17] Moreover, the public interest is furthered by preventing counterfeiting because of the harm to consumers and the trademark owner that results when consumers unwittingly purchase counterfeit products. *See supra*, pp. 2-6.

Thus, even assuming for the sake of argument that the Court's decision in *eBay* applies with full force to preliminary injunctions in counterfeiting cases, that decision does not counsel in favor of denying the Petition. There is no dispute that Respondent sold counterfeit goods, and thus that Petitioner is likely to succeed on the merits. The critical issues under the court of appeals' analysis were (i) whether Petitioner made an adequate showing of irreparable harm, and (ii) whether the harm to Petitioner if an injunction is denied outweighs the harm to Respondent if the injunction is granted. Other circuits, including the Sixth and Eleventh Circuits, would have

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[17] Unlike patent litigation, trademark infringement (especially through counterfeiting) involves confusion and outright deception of consumers, not injunctions sought "simply for undue leverage in negotiations" and litigation "primarily for licensing fees." *eBay*, 126 S.Ct. at 1842 (Kennedy, J., concurring). Accordingly, the concern that "past practice" may not "fit[] the circumstance of the cases before [the district courts]" does not arise in the counterfeiting context in the same way as in the patent context. *Id.* at 1842-43.

directed that a preliminary injunction be entered against the retailer in these circumstances. Furthermore, as discussed in Parts I.B-I.D *infra*, the Tenth Circuit considered several factors that other courts of appeals have *rejected* under the traditional four-factor test. The court of appeals' decision to the contrary thus conflicts with decisions of other circuits, and warrants further review.

B. The Tenth Circuit Weighed Respondent's Potential Harm From Proceeding In Light Of A Known Risk In The Balance Of Hardships, Contrary To The Holdings Of Other Circuits.

In weighing the balance of hardships, the court of appeals rejected Petitioner's argument that Respondent would not be harmed by an injunction that simply directed Respondent not to break the law. App., *infra*, 6a. Instead, the court accepted Respondent's arguments that "the counterfeit packages are so similar to genuine packages that an injunction would probably require it to stop selling *any* Newport cigarettes while the suit was pending, for fear that it would inadvertently violate the injunction." *Id.*

The court of appeals' holding conflicts with other circuits that have held that the cost to a defendant of complying with an injunction should not be considered if the defendant proceeded with its activity in light of a known risk of infringement. In *Grand Foods*, the Sixth Circuit held that the harm to the defendant from complying with a preliminary injunction against further sales of counterfeit cigarettes "is hardly a legally cognizable one." 453 F.3d at 382. The court explained that "the law favors the innocent producer of legitimate goods over a party that may be an innocent marketer of counterfeit goods." *Id.* As the Sixth Circuit pointed out, the marketing of counterfeit goods – even if unintentional – is unlawful activity *Id.*

The Sixth Circuit's position is supported by the Seventh Circuit, which has held that where the defendant "proceeded at its own risk [it] cannot now be heard to complain that it will be severely injured if the preliminary injunction is upheld." *Helene Curtis Indus., Inc.* v. *Church & Dwight Co.*, 560 F.2d 1325, 1334 (7th Cir. 1977). In addition, the Third Circuit has held that "a party 'can hardly claim to be harmed [where] it brought any and all difficulties occasioned by the issuance of an injunction upon itself.'" *Kos Pharms., Inc.* v. *Andrx Corp.*, 369 F.3d 700, 728 (3d Cir. 2004) (alteration in original), quoting *Opticians Ass'n of Am.* v. *Indep. Opticians of Am.*, 920 F.2d 187, 197 (3d Cir. 1990).

Here, Respondent engaged in unlawful activity by selling counterfeit goods. Moreover, Respondent purchased the counterfeit goods from an "unknown source." App., *infra*, 2a. By purchasing a highly-regulated product outside the ordinary channels, Respondent assumed the risk of liability not only for selling counterfeit products, but also for selling cigarettes that may not have complied with applicable state and federal laws.[18] Respondent chose to purchase cigarettes from an "unknown source" and now bears the consequences of having taken that risk. Three circuits would have held, contrary to the court of appeals' decision

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[18] Colorado requires all cigarette wholesalers to be licensed, and requires retailers that purchase cigarettes from a licensed wholesaler to provide identifying information to the wholesaler each year. Colo. Rev. Stat. § 39-28-102. It is unlawful for a wholesaler to sell cigarettes without a license or without the required tax stamp; retailers may be liable for aiding and abetting such sales. Colo. Rev. Stat. §§ 30-28-114; 18-1-603. Colorado also imposes criminal liability for any sale or offer for sale of cigarettes that does not comply with federal tax, trademark, copyright, and labeling laws. Colo. Rev. Stat. § 39-28-104.5(2).

here, that Respondent brought on himself the cost of complying with an injunction against further sales of counterfeit goods, and that those costs are not proper to weigh in the balance of harms relevant to a preliminary injunction.

C. The Tenth Circuit Weighed Respondent's Monetary Harm Against The Potential Harm From Trademark Infringement, Contrary To Other Circuits.

In considering the balance of hardships in this case, the Tenth Circuit weighed the potential harm that Petitioner would suffer if a preliminary injunction were denied against the potential harm to Respondent if an injunction were granted. The sole harm to Respondent that the court identified was that "an injunction would probably require [Respondent] to stop selling *any* Newport® cigarettes while the suit was pending, for fear that it would inadvertently violate the injunction." App., *infra*, 6a.[19] Potential monetary harm, such as harm from lost sales, is not a form of "irreparable harm." The court of appeals' contrary holding conflicts with two other courts of appeals on the balance of harms factor and is in sharp tension with the holding of a third court.

As the Third Circuit has explained: "The question is whether, and to what extent, the defendants will suffer *irreparable harm* if the preliminary injunction is issued. . . . Irreparable harm must be of a peculiar nature, so that compensation in money alone cannot atone for it." *Kos Pharmaceuticals*, 369 F.3d at 727 (quotations and

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[19] The court considered other factors in the balance — the size of Respondent's business, the quantity of counterfeit goods, the number of times Respondent sold counterfeit goods, and the difficulty of distinguishing them — but those factors do not imply any harm to Respondent from an injunction.

alterations omitted, emphasis added). Costs that "are compensable by money damages . . . do not constitute irreparable harm as a matter of law." *Id.* at 728. *See also S & R Corp.* v. *Jiffy Lube Int'l, Inc.*, 968 F.2d 371, 374 (3d Cir. 1992) (court considers "the extent to which the defendants will suffer *irreparable* harm if the preliminary injunction is issued." (emphases added).

The Seventh Circuit likewise considers only "the *irreparable harm* the non-moving party will suffer if the injunction is granted balanced against the *irreparable harm* the moving party will suffer if the injunction is denied." *Aircraft Owners & Pilots Ass'n* v. *Hinson*, 102 F.3d 1421, 1425 (7th Cir. 1996) (emphasis added); *see also Promatek Indus., LTD* v. *Equitrac Corp.*, 300 F.3d 808, 813 (7th Cir. 2002) ("The final factor we must consider is the balance of harms—the irreparable harm [defendant] will suffer if the injunction is enforced weighed against the irreparable harm [plaintiff] will suffer if it is not.").

The Tenth Circuit's opinion is also in sharp tension with the Second Circuit's opinion in *Warner-Lambert Co.* v. *Northside Development Corp.*, 86 F.3d 3 (2d Cir. 1996). The court there stated that the "decisive issue" in the case was "the standards for injunctive relief," and found that "the balance of hardships clearly favor[ed]" the plaintiff where the plaintiff showed irreparable harm and the defendant claimed only monetary harm. *Id.* at 8. The court found that plaintiff would suffer a "loss of consumer goodwill" from defendant's sale of plaintiff's cough drops that did not meet its freshness standards and that the loss would "be unquantifiable at trial" and "not accurately compensable by monetary damages." *Id.* The court thus found that the plaintiff's harm was "irreparable," while the "only harm to [defendant] from the full preliminary injunction is the loss of profits on sales." *Id.* The court

reversed the district court and ordered the entry of a preliminary injunction. *Id.*[20]

The Tenth Circuit, in the instant case, departed from decisions of other circuits by weighing the retailer's monetary harm from lost sales against the trademark owner's irreparable harm from sales of counterfeit goods.

D. The Tenth Circuit Weighed The Size Of Defendant's Business And The Difficulty Of Detecting Counterfeits, Factors That Other Circuits Have Held Are Irrelevant.

In addition to the conflicts noted above, the court of appeals' decision in this case relies on factors that other courts of appeals have rejected.

1. The sole basis the Tenth Circuit offered for distinguishing this case from the Sixth Circuit's decision in *Grand Foods* is that the *ex parte* seizure order in *Grand Foods*, unlike the seizure order in this case, resulted in the seizure of four additional packages of counterfeit cigarettes. App., *infra*, 5a. This is a wholly unpersuasive basis for distinguishing the two cases.

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[20] In *MicroStrategy, Inc.* v. *Motorola, Inc.*, 245 F.3d 335, 339-40 & n.3 (4th Cir. 2001), the Fourth Circuit's balance of harms analysis considered a defendant's alleged $24 million investment in a disputed mark. The court held that there was no "decided imbalance of hardship" because both parties alleged irreparable harm, but the defendant may have demonstrated "that it will suffer more from a grant of an injunction than [plaintiff] will from its denial," based on its investment in the mark. *Id.* In a dissenting opinion, Judge Niemeyer argued that the majority "gives too much weight to [defendant's] professed hardships." *Id.* at 344. Judge Niemeyer stated that in a trademark infringement case, the defendant's expenditures to develop the disputed mark are "irrelevant" and that the majority's consideration of these costs was "glaring" error. *Id.* at 345.

There is no suggestion in the Sixth Circuit's opinion that its decision turned on the discovery of additional counterfeit goods during the execution of the seizure order. To the contrary, the court explained that both likelihood of success on the merits and irreparable injury were established by evidence that the retailer sold counterfeit goods – not that the retailer sold the counterfeits goods on more than one occasion. *Grand Foods*, like this case, involved a relatively small quantity of counterfeit goods (eight packages versus two in this case), but the Sixth Circuit nevertheless directed the district court to enter a preliminary injunction.

The court of appeals also allowed the district court to consider the relatively small size of Respondent's business as a factor supporting the denial of a preliminary injunction, on the theory that granting injunctive relief would cause more harm to Respondent than denying it would cause to Petitioner. Other courts have reached the opposite conclusion. Judge Posner, writing for the Seventh Circuit in *Louis Vuitton, S.A.* v. *Lee*, concluded that the size of the retailer is not a reason to deny monetary relief, let alone an injunction:

> Most of the infringing sellers are small retailers .... Obtaining an injunction against each and every one of them would be infeasible. Trademark owners cannot hire investigators to shop every retail store in the nation. And even if they could and did, and obtained injunctions against all present violators, this would not stop the counterfeiting. Other infringers would spring up, and would continue infringing until enjoined. ... [T]he violator will know that he won't be caught every time, and merely confiscating his profits in cases in which he is caught will leave him with a net profit

> from infringement. From this we can see that the disparity in size between the typical owner of a trademark on fashionable goods and the typical seller of counterfeits of those trademarked goods is not reason to deny monetary relief to the former; for the smaller the violator, the less likely he is to be caught, and the more needful therefore a heavy punishment if he is caught. The fact that palming off counterfeit goods is not a substantial part of [the retailer's] business is not, as the district court believed, an extenuating circumstance.

875 F.2d 584, 588 (7th Cir. 1989). *See also Microsoft Corp.* v. *CMOS Techs.*, 872 F. Supp. 1329, 1340-41 (D.N.J. 1994) ("The fact that defendants are smaller retailers does not create an 'extenuating circumstance' . . . Equity is not a roving commission to redistribute wealth from large companies to small ones. The Lanham Act was not written by Robin Hood.").[21]

The Seventh Circuit's decision in *Louis Vuitton* assumed that the trademark owner could obtain an injunction against a small retailer, but the Tenth Circuit's decision allows district courts to consider the size of the retailer as a basis for denying a preliminary injunction. The Tenth Circuit's decision is incorrect, for the same reasons that a decision not to require small retailers to pay monetary damages would be incorrect. Because

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[21] In contrast to the Seventh Circuit, the Ninth Circuit has held that "[i]n evaluating the balance of hardships a court must consider the impact granting or denying a preliminary injunction will have on the respective enterprises. Thus the relative size and strength of each enterprise may be pertinent to this inquiry." *Int'l Jensen, Inc.* v. *Metrosound U.S.A.*, Inc., 4 F.3d 819, 827 (9th Cir. 1993).

manufacturers of counterfeit goods operate in a clandestine manner, trademark owners typically have no way to combat counterfeiting other than to identify counterfeit goods sold by retailers – which frequently are small businesses. If the size of the retailers' business is a reason to deny an injunction, trademark owners' ability to combat counterfeiting will be substantially undermined. The practical effect of the Tenth Circuit's ruling is to create a safe haven for counterfeiting among small retailers, and to undermine Congress's "zero-tolerance" policy for counterfeit goods.

II. The Questions Presented Are Important And Recurring, And This Case Presents A Good Vehicle To Decide Them.

The Tenth Circuit's decision in this case conflicts with decisions of other courts of appeals on several important questions of trademark law. The varying standards that the courts of appeals apply have resulted in inconsistent application of the federal trademark laws. This Court's intervention is needed to restore the uniformity of federal law.

Given the insidious nature of the counterfeiting problem, and Congress's repeated efforts to combat the problem through legislation, there can be no doubt that the questions presented are important. The growing prevalence of counterfeiting in terms of volume and dollar value of counterfeit goods, *see supra*, pp. 2-5, demonstrates that the questions will recur, as is shown by the diametrically opposite results that the courts of appeals reached in the instant case and *Grand Foods*.

This case provides a good vehicle to decide the questions presented. The relevant facts are clear and undisputed, and the basis of the court of appeals' decision is straightforward.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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April, 2007

APPENDIX

UNITED STATES COURT OF APPEALS
FOR THE TENTH CIRCUIT

No. 06-1115

(D.C. No. 06-cv-225-LTB) (D. Colo.)

January 8, 2007, Filed

LORILLARD TOBACCO COMPANY, a Delaware corporation,

Plaintiff-Appellant,

v.

ISAAC G. ENGIDA, doing business as I and G Liquors,

Defendant-Appellee.

ORDER AND JUDGMENT*

Before **HOLMES**, **McKAY**, and **BRORBY**, Circuit Judges.

Representatives of Lorillard Tobacco Company, the manufacturer of Newport® cigarettes, acquired two

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* After examining the briefs and appellate record, this panel has determined unanimously that oral argument would not materially assist the determination of this appeal. *See* Fed. R. App. P. 34(a)(2); 10th Cir. R. 34.1(G). The case is therefore ordered submitted without oral argument. This order and judgment is not binding precedent, except under the doctrines of law of the case, res judicata, and collateral estoppel. It may be cited, however, for its persuasive value consistent with Fed. R. App. P. 32.1 and 10th Cir. R. 32.1.

packages of counterfeit Newport® cigarettes from I and G Liquors, defendant Isaac G. Engida's business. Lorillard filed a complaint against I and G for violations of the Lanham Act, 15 U.S.C. §§ 1114 and 1125, and sought an ex parte seizure order and a temporary restraining order (TRO). The district court granted Lorillard's requests. Upon executing the seizure order, however, Lorillard's representatives found no Newport® cigarettes, either genuine or counterfeit, on I and G's premises. In addition to about twenty packages of non-Lorillard-brand cigarettes, the search did yield some records showing I and G may have purchased some cigarettes from an unknown source. At a hearing on February 24, 2006, the district court held that Lorillard had not made a sufficient showing for continued injunctive relief and dissolved the TRO. Lorillard appeals.

Jurisdiction

I and G contends that this court does not have jurisdiction because the district court never actually denied Lorillard a preliminary injunction. Instead, I and G argues, the district court only dissolved the TRO it previously had entered. This court may hear an interlocutory appeal of the denial of preliminary injunctive relief, but it generally does not have jurisdiction over an interlocutory appeal of the dissolution of a TRO. *See* 28 U.S.C. § 1292(a)(1); *Office of Pers. Mgmt. v. Am. Fed'n of Gov't Employees*, 473 U.S. 1301, 1303-05 (1985); *Duvall v. Keating*, 162 F.3d 1058, 1062 (10th Cir. 1998). Having reviewed the record, we find that during the February 24 hearing, the district court not only dissolved the TRO, but also denied preliminary injunctive relief. *See* Aplt. App. at 107 (district court stating to Lorillard, "you're asking for a preliminary injunction at this point"); 108 (district court stating, "you want me to continue this extraordinary relief by way of a preliminary injunction"); 109 (district court stating that Lorillard had shown cause why a preliminary injunction should not be

entered); *id.* (district court stating, "I'm not going to place the imprimatur of the federal government and the United States judiciary on a preliminary injunction, and I'm going to dissolve the temporary restraining order."). Whether the district court's comments are construed as an express denial of Lorillard's motion for preliminary injunctive relief or as having the "practical effect" of denying injunctive relief, we find that we have jurisdiction over this interlocutory appeal under 28 U.S.C. § 1292(a)(1). *See Forest Guardians v. Babbitt*, 174 F.3d 1178, 1184-85 (10th Cir. 1999).

Analysis

We review the district court's denial of a preliminary injunction for abuse of discretion. *Davis v. Mineta*, 302 F.3d 1104, 1110-11 (10th Cir. 2002). "A district court abuses its discretion where it commits a legal error or relies on clearly erroneous factual findings, or where there is no rational basis in the evidence for its ruling." *Id.* at 1111 (internal citation omitted). "When reviewing for an abuse of discretion, the district court's decision is overturned only if it is arbitrary, capricious, whimsical, or manifestly unreasonable." *Pac. Frontier v. Pleasant Grove City*, 414 F.3d 1221, 1231 (10th Cir. 2005) (quotation omitted).

Under the Lanham Act, a court may grant an injunction "according to the principles of equity and upon such terms as the court may deem reasonable."

15 U.S.C. § 1116(a). A party seeking injunctive relief must establish four factors:

> (1) it will suffer irreparable harm if the injunction is not granted, (2) its threatened injury outweighs the harm caused to the opposing party as a result of the injunction, (3) the injunction is not adverse to the public interest, and (4) it has a substantial

> likelihood of success on the merits of the case.

Dominion Video Satellite, Inc. v. Echostar Satellite Corp., 356 F.3d 1256, 1260 (10th Cir. 2004). "[B]ecause a preliminary injunction is an extraordinary remedy, the right to relief must be clear and unequivocal." *Id.* at 1261 (quotation omitted).

It appears the district court doubted the strength of Lorillard's case and did not believe that Lorillard showed it would suffer irreparable harm in the absence of an injunction. *See* Aplt. App. at 106 (noting that the origin of one of the cigarette packages was in question, so the dispute came down to perhaps one package of cigarettes); *id.* at 107 (Lorillard's counsel stating his understanding that Mr. Engida indicated he had no intention of selling cigarettes, and the court responding, "[i]f he has no intention of selling cigarettes, why do I need continued injunctive relief?"); *id.* at 108 (court stating, "what you're after, and it was pretty apparent at the outset, is you want to utilize Mr. Engida on the basis of two packages of cigarettes as the bottom of the food chain"); *id.* at 109 ("I need something more substantial than two packages of cigarettes for a TRO – I granted the TRO anticipating that this raid under the auspices of the Marshals Service, United States Marshals Service, would find substantial or at least significant evidence that this man, Mr. Engida, is in violation of the Lanham Act."); *id.* at 112 (court stating, "I think plaintiff's counsel better consider seriously continuing this case. Perhaps you ought to find a better small fish."). It also appears the district court was concerned that the harm a preliminary injunction would cause I and G outweighed any harm to Lorillard in the absence of an injunction. *See id.* at 108 (court stating, "He's a businessman, small business."); *id.* (court stating, "where a marshal under order of this Court virtually conducts a raid on this man's business, and you find nothing, except some questions about a paper trail, and

on this you want me to continue this extraordinary relief . . . ?"); *id.* at 109 (court stating, "[t]he most reasonable inference that I can make, and I don't even really need to hear from Mr. Enigda, is that he happened to accidentally come into possession in his business of two packages of – purported trademark violations of two packages of cigarettes. And you want to bring the full force and authority of the United States government and the federal judicial system down on this man's head. I'm not going to do it.").

In light of the record before it, the district court did not abuse its discretion in denying Lorillard preliminary injunctive relief. "In defining the contours of irreparable harm, case law indicates that the injury must be both certain and great, and that it must not be merely serious or substantial." *Dominion Video Satellite*, 356 F.3d at 1262 (quotation omitted). The record does not necessarily establish that Lorillard would suffer certain and great harm in the absence of an injunction. Unlike the Sixth Circuit case on which Lorillard relies, *see Lorillard Tobacco Co. v. Amouri's Grand Foods, Inc.*, 453 F.3d 377, 379 (6th Cir. 2006), the raid on I and G's premises did not reveal any evidence of additional counterfeit Newport® cigarettes, undermining the likelihood of future injury to Lorillard.

Lorillard argues that a prima facie case of trademark infringement establishes irreparable harm, per se. This court has stated, "[i]rreparable injury is frequently presumed where a trademark is wrongfully appropriated by another." *SCFC ILC, Inc. v. Visa USA, Inc.*, 936 F.2d 1096, 1100-01 (10th Cir. 1991), *overruled on other grounds by O Centro Espirita Beneficiente Uniao Do Vegetal v. Ashcroft*, 389 F.3d 973, 975 (10th Cir. 2004) (en banc). In response, I and G contends that the Supreme Court recently disapproved the use of categorical rules in connection with injunctive relief in intellectual property

actions. *See eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1840-41 (2006).

Notably, the Sixth Circuit did not discuss *eBay* in awarding relief in *Amouri's Grand Foods*. We need not consider how *eBay* may apply in this context, however, because in any event Lorillard has not shown that any harm Lorillard would suffer in the absence of an injunction outweighed the potential harm to I and G if an injunction were granted. As stated above, the raid did not indicate a substantial likelihood that I and G had or would sell any additional counterfeit Newport® cigarettes. Lorillard argues I and G would not be harmed from being barred from selling counterfeit cigarettes, since doing so is illegal anyway. As I and G points out, however, the counterfeit packages are so similar to genuine packages that an injunction would probably require it to stop selling *any* Newport® cigarettes while the suit was pending, for fear that it would inadvertently violate the injunction. Further, the district court did not clearly err in taking account of I and G's status as a small business. All of these factors indicate that an injunction would weigh much more heavily on I and G than the lack of one would affect Lorillard.

Under the circumstances, the district court's decision to deny preliminary injunctive relief was not arbitrary, capricious, whimsical, or manifestly unreasonable. Thus, the district court did not abuse its discretion, and the judgment of the district court is AFFIRMED.

Entered for the
Court
Wade Brorby
Circuit Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLORADO
LEWIS T. BABCOCK, CHIEF JUDGE

Civil Case No. O6-cv-00225-LTB-OES

LORILLARD TOBACCO COMPANY,
a Delaware Corporation,

Plaintiff,

v.

ISAAC G. ENGIDA d/b/a
I AND G LIQUORS

Defendants.

Order

The Temporary Restraining Order granted on February 10, 2006 is hereby DISSOLVED.

The seal placed on this case February 10, 2006 is LIFTED.

Plaintiff Lorillard Tobacco Company is hereby ordered to show cause why this case should not be dismissed as frivolous, no later than March 6, 2006.

DONE and ORDERED, this 24th day of February, 2006 at Denver, Colorado.

s/Lewis T. Babcock

United States District Chief Judge

UNITED STATES COURT OF APPEALS

FOR THE TENTH CIRCUIT

No. 06-1115

LORILLARD TOBACCO COMPANY, a Delaware corporation,

Plaintiff-Appellant,

v.

ISAAC G. ENGIDA, doing business as I and G Liquors,

Defendant-Appellee.

ORDER

Filed January 25, 2007

Before HOLMES, McKay, and BRORBY, Circuit Judges.

Appellant's petition for rehearing is denied.

Entered for the Court

ELISABETH A. SHUMAKER, Clerk

by:
Deputy Clerk

PROVISIONS OF THE LANHAM ACT
(15 U.S.C. § 1051 *et seq.*)

§ 1114. Remedies; infringement; innocent infringement by printers and publishers

(1) Any person who shall, without the consent of the registrant--

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or

(b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive,

shall be liable in a civil action by the registrant for the remedies hereinafter provided. Under subsection (b) hereof, the registrant shall not be entitled to recover profits or damages unless the acts have been committed with knowledge that such imitation is intended to be used to cause confusion, or to cause mistake, or to deceive.

* * *

§ 1116. Injunctive relief

(a) Jurisdiction; service. The several courts vested with jurisdiction of civil actions arising under this Act shall have power to grant injunctions, according to the principles of equity and upon such terms as the court

may deem reasonable, to prevent the violation of any right of the registrant of a mark registered in the Patent and Trademark Office or to prevent a violation under subsection (a), (c), or (d) of section 43. Any such injunction may include a provision directing the defendant to file with the court and serve on the plaintiff within thirty days after the service on the defendant of such injunction, or such extended period as the court may direct, a report in writing under oath setting forth in detail the manner and form in which the defendant has complied with the injunction. Any such injunction granted upon hearing, after notice to the defendant, by any district court of the United States, may be served on the parties against whom such injunction is granted anywhere in the United States where they may be found, and shall be operative and may be enforced by proceedings to punish for contempt, or otherwise, by the court by which such injunction was granted, or by any other United States district court in whose jurisdiction the defendant may be found.

(b) Transfer of certified copies of court papers. The said courts shall have jurisdiction to enforce said injunction, as herein provided, as fully as if the injunction had been granted by the district court in which it is sought to be enforced. The clerk of the court or judge granting the injunction shall, when required to do so by the court before which application to enforce said injunction is made, transfer without delay to said court a certified copy of all papers on file in his office upon which said injunction was granted.

(c) Notice to Director. It shall be the duty of the clerks of such courts within one month after the filing of any action, suit, or proceeding involving a mark registered under the provisions of this Act to give notice thereof in writing to the Director setting forth in order so far as known the names and addresses of the litigants

and the designating number or numbers of the registration or registrations upon which the action, suit, or proceeding has been brought, and in the event any other registration be subsequently included in the action, suit, or proceeding by amendment, answer, or other pleading, the clerk shall give like notice thereof to the Director, and within one month after the judgment is entered or an appeal is taken the clerk of the court shall give notice thereof to the Director, and it shall be the duty of the Director on receipt of such notice forthwith to endorse the same upon the file wrapper of the said registration or registrations and to incorporate the same as a part of the contents of said file wrapper.

(d) Civil actions arising out of use of counterfeit marks.

(1) (A) In the case of a civil action arising under section 32(1)(a) of this Act (15 U.S.C. 1114) or section 220506 of title 36, United States Code, with respect to a violation that consists of using a counterfeit mark in connection with the sale, offering for sale, or distribution of goods or services, the court may, upon ex parte application, grant an order under subsection (a) of this section pursuant to this subsection providing for the seizure of goods and counterfeit marks involved in such violation and the means of making such marks, and records documenting the manufacturer, sale, or receipt of things involved in such violation.

(B) As used in this subsection the term "counterfeit mark" means--

(i) a counterfeit of a mark that is registered on the principal register in the United States Patent and Trademark Office for such goods or services sold, offered for sale, or distributed and that is in use, whether or not the person against whom relief is sought knew such mark was so registered; or

(ii) a spurious designation that is identical with, or substantially indistinguishable from, a designation as to which the remedies of this Act are made available by reason of section 220506 of title 36, United States Code;

but such term does not include any mark or designation used on or in connection with goods or services of which the manufacture or producer was, at the time of the manufacture or production in question authorized to use the mark or designation for the type of goods or services so manufactured or produced, by the holder of the right to use such mark or designation.

(2) The court shall not receive an application under this subsection unless the applicant has given such notice of the application as is reasonable under the circumstances to the United States attorney for the judicial district in which such order is sought. Such attorney may participate in the proceedings arising under such application if such proceedings may affect evidence of an offense against the United States. The court may deny such application if the court determines that the public interest in a potential prosecution so requires.

(3) The application for an order under this subsection shall--

(A) be based on an affidavit or the verified complaint establishing facts sufficient to support the findings of fact and conclusions of law required for such order; and

(B) contain the additional information required by paragraph (5) of this subsection to be set forth in such order.

(4) The court shall not grant such an application unless-

(A) the person obtaining an order under this subsection provides the security determined adequate by the court for the payment of such damages as any person may be entitled to recover as a result of a wrongful seizure or wrongful attempted seizure under this subsection; and

(B) the court finds that it clearly appears from specific facts that--

(i) an order other than an ex parte seizure order is not adequate to achieve the purposes of section 32 of this Act (15 U.S.C. 1114);

(ii) the applicant has not publicized the requested seizure;

(iii) the applicant is likely to succeed in showing that the person against whom seizure would be ordered used a counterfeit mark in connection with the sale, offering for sale, or distribution of goods or services;

(iv) an immediate and irreparable injury will occur if such seizure is not ordered;

(v) the matter to be seized will be located at the place identified in the application;

(vi) the harm to the applicant of denying the application outweighs the harm to the legitimate interests of the person against whom seizure would be ordered of granting the application; and

(vii) the person against whom seizure would be ordered, or persons acting in concert with such person, would destroy, move, hide, or otherwise make such matter inaccessible to the court, if the applicant were to proceed on notice to such person.

(5) An order under this subsection shall set forth--

(A) the findings of fact and conclusions of law required for the order;

(B) a particular description of the matter to be seized, and a description of each place at which such matter is to be seized;

(C) the time period, which shall end not later than seven days after the date on which such order is issued, during which the seizure is to be made;

(D) the amount of security required to be provided under this subsection; and

(E) a date for the hearing required under paragraph (10) of this subsection.

(6) The court shall take appropriate action to protect the person against whom an order under this subsection is directed from publicity, by or at the behest of the plaintiff, about such order and any seizure under such order.

(7) Any materials seized under this subsection shall be taken into the custody of the court. The court shall enter an appropriate protective order with respect to discovery by the applicant of any records that have been seized. The protective order shall provide for appropriate procedures to assure that confidential information contained in such records is not improperly disclosed to the applicant.

(8) An order under this subsection, together with the supporting documents, shall be sealed until the person against whom the order is directed has an opportunity to contest such order, except that any person against whom such order is issued shall have access to such order and supporting documents after the seizure has been carried out.

(9) The court shall order that service of a copy of the order under this subsection shall be made by a Federal law enforcement officer (such as a United States marshal or an officer or agent of the United States Customs Service, Secret Service, Federal

Bureau of Investigation, or Post Office) or may be made by a State or local law enforcement officer, who, upon making service, shall carry out the seizure under the order. The court shall issue orders, when appropriate, to protect the defendant from undue damage from the disclosure of trade secrets or other confidential information during the course of the seizure, including, when appropriate, orders restricting the access of the applicant (or any agent or employee of the applicant) to such secrets or information.

(10) (A) The court shall hold a hearing, unless waived by all the parties, on the date set by the court in the order of seizure. That date shall be not sooner than ten days after the order is issued and not later than fifteen days after the order is issued, unless the applicant for the order shows good cause for another date or unless the party against whom such order is directed consents to another date for such hearing. At such hearing the party obtaining the order shall have the burden to prove that the facts supporting findings of fact and conclusions of law necessary to support such order are still in effect. If that party fails to meet that burden, the seizure order shall be dissolved or modified appropriately.

(B) In connection with a hearing under this paragraph, the court may make such orders modifying the time limits for discovery under the Rules of Civil Procedure as may be necessary to prevent the frustration of the purposes of such hearing.

(11) A person who suffers damage by reason of a wrongful seizure under this subsection has a cause of action against the applicant for the order under which such seizure was made, and shall be entitled to recover such relief as may be appropriate, including damages for lost profits, cost of materials, loss of good will, and punitive damages in instances where the

seizure was sought in bad faith, and, unless the court finds extenuating circumstances, to recover a reasonable attorney's fee. The court in its discretion may award prejudgment interest on relief recovered under this paragraph, at an annual interest rate established under section 6621(a)(2) of the Internal Revenue Code of 1986, commencing on the date of service of the claimant's pleading setting forth the claim under this paragraph and ending on the date such recovery is granted, or for such shorter time as the court deems appropriate.

§ 1117. Recovery for violation of rights

(a) Profits; damages and costs; attorney fees

When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, a violation under section 1125 (a) or (d) of this title, or a willful violation under section 1125 (c) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover

(1) defendant's profits,

(2) any damages sustained by the plaintiff, and

(3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the

court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

(b) Treble damages for use of counterfeit mark

In assessing damages under subsection (a) of this section, the court shall, unless the court finds extenuating circumstances, enter judgment for three times such profits or damages, whichever is greater, together with a reasonable attorney's fee, in the case of any violation of section 1114 (1)(a) of this title or section 220506 of title 36 that consists of intentionally using a mark or designation, knowing such mark or designation is a counterfeit mark (as defined in section 1116 (d) of this title), in connection with the sale, offering for sale, or distribution of goods or services. In such cases, the court may in its discretion award prejudgment interest on such amount at an annual interest rate established under section 6621 (a)(2) of title 26, commencing on the date of the service of the claimant's pleadings setting forth the claim for such entry and ending on the date such entry is made, or for such shorter time as the court deems appropriate.

(c) Statutory damages for use of counterfeit marks

In a case involving the use of a counterfeit mark (as defined in section 1116 (d) of this title) in connection with the sale, offering for sale, or distribution of goods or services, the plaintiff may elect, at any time before final judgment is rendered by the trial court, to recover, instead of actual damages and profits under subsection (a) of this section, an award of statutory damages for any such use in connection with the sale,

offering for sale, or distribution of goods or services in the amount of—

(1) not less than $500 or more than $100,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just; or

(2) if the court finds that the use of the counterfeit mark was willful, not more than $1,000,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just.

(d) Statutory damages for violation of section 1125 (d)(1)

In a case involving a violation of section 1125 (d)(1) of this title, the plaintiff may elect, at any time before final judgment is rendered by the trial court, to recover, instead of actual damages and profits, an award of statutory damages in the amount of not less than $1,000 and not more than $100,000 per domain name, as the court considers just.

§ 1125. False designations of origin, false descriptions, and dilution forbidden

(a) Civil action.

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which--

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

* * *

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No. 06-1440

Supreme Court, U.S.
FILED
JUN 1 - 2007
OFFICE OF THE CLERK

In The

Supreme Court of the United States

LORILLARD TOBACCO COMPANY,

Petitioner,

v.

ISAAC G. ENGIDA, D.B.A. I & G LIQUORS,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Tenth Circuit

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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I. STATEMENT OF FACTS

On February 10, 2006, Petitioner Lorillard Tobacco Company ("Petitioner" or "Lorillard") filed a complaint in the district court alleging, *inter alia*, violations of the Anti-Counterfeiting Consumer Protection Act of 1996 ("Anti-Counterfeiting Act"), codified in relevant part at 15 U.S.C. § 1116. (Aplt. App. at 5).[1] The complaint was supported by affidavits alleging that on January 31, 2006, two Lorillard employees obtained two individual packages of counterfeit Newport® cigarettes from I & G Liquors in Denver, Colorado. (Aplt. App. at 79, 84). Neither affidavit establishes that Engida sold these cigarettes or was present when either cigarette package was obtained. The complaint alleges that Engida owns I & G Liquors, the business where the Lorillard employees allege they "secured" these cigarettes. (Aplt. App. at 7). Engida had not responded to the complaint when Lorillard filed its notice of appeal.

At the commencement of the action, Lorillard also filed a pleading entitled "Motion for Ex Parte Seizure Order, Temporary Restraining Order, and Order to Show Cause for Preliminary Injunction, and Order Accelerating Discovery." (Aplt. App. at 31). The district court promptly conducted an *ex parte* hearing on the motion as soon as it was filed. The court was in session for three minutes. (Aplee. Supp. App. at 16). At the conclusion of the hearing, the district court executed the proposed order after making several handwritten interlineations (Aplee. Supp. App.

[1] All references are to the record before the Tenth Circuit Court of Appeals.

at 7-15). This is the only form of order Lorillard tendered at any time before filing its notice of appeal.

At the conclusion of this *ex parte* hearing, the district court set "a show cause hearing." (Aplee. Supp. App. at 19). The record of the February 10 hearing discloses no discussion whatsoever about conducting a hearing on a motion for preliminary injunction. Indeed, the order Lorillard prepared, and the district court entered, indicates that the defendant would be required to show cause "why an order should not be entered granting Lorillard a *temporary* [rather than 'preliminary'] injunction . . . " (Aplee. Supp. App. at 10).

The respondent appeared *pro se* as ordered by the district court on February 24, 2006. (Aplt. App. at 102, 103). In an 18 minute hearing, the court began by taking appearances and hearing Lorillard's arguments about why the case should remain under seal. (Aplt. App. at 104). After hearing Lorillard's arguments, the court ordered the case unsealed. (Aplt. App. at 105).

Next, in response to the court's request for a "status report from Plaintiff's counsel" (Aplt. App. at 105) as to what had occurred since the temporary restraining order had entered, Lorillard's counsel advised the court that Petitioner had "effectuated a search and a seizure of Mr. Engida's premises." (*Id.*) Counsel advised that 20 cigarette packs of other brands had been identified, but admitted that none of them were Newports®, the Lorillard brand in question. (*Id.*) Lorillard did not file any return with the district court identifying the contents it seized from Engida's premises, and Lorillard's counsel provided no proof at the show cause hearing that any counterfeit

cigarettes had been recovered during the search it had executed with the assistance of the U.S. Marshal's Office.

After inquiring whether Lorillard was requesting the court "to continue a restraining order on this showing," (Aplt. App. at 106-07), and confirming that Lorillard was making that request, (Aplt. App. at 107), the district court specifically inquired why Lorillard was requesting further injunctive relief on the basis of this showing. (Aplt. App. at 107). After Lorillard's attorneys made no further offer of proof, the district court concluded:

> The most reasonable inference that I can make, and I really don't even need to hear from Mr. Engida, is that he happened accidentally to come into possession in his business of – purported trademark violations of two packages of cigarettes.

(Aplt. App. at 109). The district court's inference was corroborated by Engida's statements at the hearing that he buys cigarettes for resale at "Sam's Club and the Cigarette Store." (Aplt. App. at 110).

After making these findings, the district court concluded as follows:

> Now Mr. Engida was directed to come here and show cause why a preliminary injunction shouldn't be entered, but you've shown cause why it shouldn't and why the TRO ought to be dissolved.
>
> You can take all the discovery under the rules that you are legally entitled to do, but I'm not going to place the imprimatur of the federal government and the United States judiciary on a

> preliminary injunction, and I'm going to dissolve the temporary restraining order.
>
> You went fishing, and you came back empty handed.
>
> All right. The temporary restraining order is going to be dissolved.

(Aplt. App. at 109-10). At no time during the proceeding did the district court state that it was conducting a hearing on a motion for preliminary injunction. Although Lorillard appeared through two of its attorneys and one of its affiants, William Blakslee, Lorillard did not request to present any evidence at the hearing. Further, Lorillard did not tender a proposed preliminary injunction order or any proposed findings of fact or conclusions of law.

Instead, the district court concluded the show cause hearing by addressing the respondent, who appeared *pro se*, and confirming that he could not afford to hire an attorney. (Aplt. App. at 103, 110). In addressing the Court, however, Engida did make it plain in his poor English that he wanted to contest Lorillard's case, stating:

> So I don't want to hire an attorney, and I want them to prove that I sell it. If there is any cigarettes, I and G, I want them to prove it.

(Aplt. App. at 110-11). Engida also advised the Court that he had declined requests from Lorillard's attorneys to have Engida provide "a confession" and:

> Sign the paper, you know, to make it permanently for you know, not selling something.

(Aplt. App. at 110). Engida made no statements at the hearing consenting to an injunction or waiving his right to

a contested hearing in which Lorillard would have the burden of proof. (Aplt. App. at 110-11).

After Engida stated his intention to put Lorillard to its proof, the district court ordered Lorillard to show cause why its action should not be dismissed as frivolous. (Aplt. App. at 111). The district court also advised Engida that it would attempt to locate *pro bono* counsel for Engida if the Court determined that the case was not frivolous and the action should proceed. (*Id.*) Lorillard's counsel did not ask the Court to consider any affidavit evidence rebutting Engida's position before the show cause hearing concluded and Lorillard did not make an offer of proof or request to present evidence. At the conclusion of the show cause hearing, Lorillard did not request that the case be set for further injunctive proceedings of any kind.

In keeping with the district court's customary practice, the district court also entered a written order on February 24, 2006 setting forth and summarizing the actions that the district court had taken at the hearing. (Aplt. App. at 113). That order was three-fold and provided as follows: "(1) The Temporary Restraining Order granted on February 10, 2006 is hereby DISSOLVED. (2) The seal placed on this case February 10, 2006 is LIFTED. (3) Plaintiff Lorillard Tobacco Company is hereby ordered to show cause why this case should not be dismissed as frivolous, no later than March 6, 2006." *Id.* The written order did not purport to rule on any pending motion for preliminary injunction or to otherwise grant or deny preliminary injunctive relief under Fed. R. Civ. P. 65.

Lorillard did not move for reconsideration of the Court's February 24, 2006 order and it did not file a motion requesting findings of fact or conclusions of law

under Fed. R. Civ. P. 52. Likewise, Lorillard did not file a motion for preliminary injunctive relief at any time after the February 24 hearing was conducted and it never requested the district court to hold an evidentiary injunction hearing. As ordered, however, Lorillard filed a response to the February 24, 2006 show cause order arguing why the case should not be dismissed as frivolous. (Aplee. Supp. at 4). That pleading did not challenge or request reconsideration of the Court's order dissolving its earlier temporary restraining order and Lorillard did not request further injunctive relief in its response to the show cause order. Engida, who was still *pro se*, filed no opposition to Lorillard's March 6 papers.

After considering Lorillard's response to the show cause order, the district court determined to locate *pro bono* counsel for Engida and the case proceeded. More specifically, by order dated March 13, 2006, the district court appointed undersigned counsel to represent Engida. (Aplee. Supp. App. at 25). The record does not include any evidence that Lorillard pursued any form of injunctive relief – by motion or otherwise, after the court appointed counsel to represent Engida. Thus, when Lorillard subsequently filed its Notice of Appeal on March 23, 2006, the district court had not entered any written order, findings of fact, or conclusions of law directed to the propriety of a preliminary injunction.

II. ARGUMENT

Especially given the undeveloped state of the record, this is not a case that the Court should review at this interlocutory stage of the proceeding. Contrary to the Petitioner's statement of the questions presented, whether

the Respondent sold two packs of counterfeit cigarettes to Lorillard's undercover agents is very much in dispute. After Respondent demanded that Lorillard prove its case, it was incumbent on the Petitioner to come forward with evidence establishing its right to a preliminary injunction pursuant to Rule 65 of the Federal Rules of Civil Procedure, but the Petitioner failed to do so. In reviewing this record, the Court of Appeals properly concluded that the district court did not abuse its discretion to deny preliminary injunctive relief. The judgment below neither departs from existing law nor creates a split of authority among the circuit courts.

A. The Record In This Case Is Too Poorly Developed To Warrant Further Appellate Review At This Interlocutory Stage Of The Proceeding.

All of Petitioner's factual allegations on appeal are based on three affidavits from Lorillard agents and a plethora of secondary sources. None of the affidavit evidence has ever been tested in court or subject to cross-examination. The Petitioner did not call any of the three affiants to testify, even after Mr. Engida appeared *pro se* at the show cause hearing and requested that Petitioner "prove" its case. Rather than proceed with an evidentiary hearing after the district court indicated that it would appoint counsel for Engida, Lorillard filed this hasty, ill-conceived appeal. *See, Haines v. Kerner*, 404 U.S. 519, 521 (1972) (Pro se litigant is entitled to opportunity to offer proof).

Further, although the Tenth Circuit found that the district court orally denied preliminary injunctive relief in this case, it is undisputed that the Petitioner failed to

submit proposed findings of fact, conclusions of law, or any other form of proposed order to the district court. Likewise, the district court never entered any such order. The lack of written findings of fact and conclusions of law under Fed. R. Civ. P. 52(a), which are required when ruling on a preliminary injunction motion, is indicative that the district court did not think it had conducted a preliminary injunction hearing or had ruled on a motion for preliminary injunction.

Although the district court appointed undersigned counsel to represent Engida, the interlocutory appeal in this case was filed before the due date for Respondent's answer or other response to the complaint. As a result, the state of the record does not establish which allegations in Petitioner's complaint are in dispute. Respondent has never had the opportunity to lodge affirmative defenses, file motions directed to the complaint, join parties, or take discovery directed to the propriety of the Petitioner's irreparable injury claim. The record is completely devoid of the Respondent's position, other than his *pro se* statement at the show cause hearing:

> I'm sure I didn't do anything wrong. I buy my cigarettes from known sources, Sam's Club and the Cigarette Store.

(Aplt. App. at 110).

On remand, Respondent intends to mount a substantive due process challenge to the strict liability portions of the Anti-Counterfeiting Act, 15 U.S.C. § 1116(d). In summary, Engida will argue that the combination of strict liability and mandatory statutory damages as applied to an unwitting retailer constitutes an arbitrary deprivation of property in violation of due process. *See, County of*

Sacramento v. Lewis, 523 U.S. 833, 845-46 (1998) (Due process is intended to secure the individual from the arbitrary action of the government, unrestrained by principles of private right and distributive justice); *Daniels v. Williams*, 474 U.S. 327, 331 (1986) ("This history reflects the traditional and common-sense notion that the Due Process Clause, like its forebear in the Magna Carta, was intended to secure the individual from the arbitrary exercise of the powers of government"); *Wolff v. McDonnell*, 418 U.S. 539, 558 (1974) (same). "Elementary notions of fairness enshrined in our constitutional jurisprudence dictate that a person receive fair notice not only of the conduct that will subject him to punishment, but also of the severity of the penalty that a State may impose." *BMW of North America, Inc. v. Gore*, 517 U.S. 559, 574 (1996).

Here, it is arbitrary to impose strict liability and mandatory damages on a retailer such as Engida when Congress described such unwitting retailers as themselves victims of counterfeiting. *See* S. Rep. 104-177, p. 2 (Counterfeiting of trademarked merchandise "injures unwitting retailers, who must face the ire of customers who discover their brand name purchases are in fact counterfeits").

In a similar vein, on remand, Respondent will also move to declare that the strict liability provisions of the Anti-Counterfeiting Act are void for vagueness, as applied to the facts of this case. The Supreme Court has long held that "[i]t is a basic principle of due process that an enactment is void for vagueness if its prohibitions are not clearly defined." *Grayned v. City of Rockford*, 408 U.S. 104, 108 (1972) ("[W]e insist that laws give the person of ordinary intelligence a reasonable opportunity to know what is prohibited, so that he may act accordingly. Vague laws may trap the innocent by not providing fair warning"). *See also,*

Village of Hoffman Estates v. Flipside, Hoffman Estates, Inc., 455 U.S. 489 (1982). The Court has recognized that a scienter element may mitigate a law's vagueness, especially with respect to the adequacy of notice as to what conduct is proscribed. *Hoffman Estates*, 455 U.S. at 499. As applied to the circumstances of the instant case, the strict liability provisions of the Anti-Counterfeiting Act are impermissibly vague because a person of ordinary intelligence has no ability to determine which Newport® cigarettes are genuine and which are counterfeit. Without a scienter or deliberate ignorance standard, the law does not provide fair warning and it may trap the innocent retailer who happens to sell counterfeit products without any knowledge or reason to suspect that the products are not the real thing.

Finally, in ordering that this case be stayed pending appeal, the district court has clarified that it had not intended to grant or deny a preliminary injunction before the petitioner commenced its appeal. As the district court noted:

> THE COURT: You know, what was really entered was a TRO, and I dissolved it.
>
> MR. LANG: That's correct.
>
> THE COURT: It was not a ruling on a motion for a preliminary injunction, it was a dissolution of a TRO. There's some question whether that's even an appealable order.

This explains why there are no written findings to review in this case.

The undeveloped state of the record in this case, and particularly the lack of any evidentiary hearing following

Respondent's request to "prove it," make this a terrible "test case" to interpret the important questions at the intersection of trademark infringement law and preliminary injunction standards following the Court's recent decision in *eBay v. MercExchange, LLC*, 126 S.Ct. 1837 (2006). Thus, this is not a case in which the adversarial process has sharpened the issues for appeal in any meaningful way.

B. The Factual Predicates For Injunctive Relief Are Disputed In The District Court.

Despite Petitioner's continual assertions that many facts are undisputed, the only certainty in the district court record is that all relevant facts are in dispute.

1. Respondent Contested Whether It Sold Counterfeit Cigarettes.

In its Petition, Lorillard states: "[I]t is undisputed that Petitioner demonstrated a likelihood of success on the merits by presenting unchallenged evidence that Respondent sold counterfeit Newport cigarettes." (Cert. Pet. at 10). Nothing could be further from the truth.

At the February 24, 2006 show cause hearing, Respondent plainly put the Petitioner on notice that he contested the factual underpinnings of Petitioner's case. But even though Lorillard appeared with three attorneys and Edward Blaksee, one of its affiants, Lorillard failed to even request an opportunity to present evidence in support of its motion. Mr. Blaksee did not identify Isaac Engida as the person from whom he had "secured" the cigarettes. No one from the U.S. Marshal or anyone else testified that Mr. Engida was present when the seizure

warrant was executed. No one testified concerning the documents seized from Respondent's store, documents that Petitioner now suggests were somehow suspicious or indicative of an unknown source. In fact, those documents were never made part of the record or presented to the district court as evidence. The record is unclear as to who was in the store when the authorities located 20 packages of cigarettes. All that was established at the hearing is that none of those cigarettes were Newports®, either genuine or counterfeit. No contraband whatsoever was recovered.

Even as to its purported strict liability claims, Lorillard has not offered any evidence or testimony at all, let alone evidence establishing that the two offending packs of cigarettes were purchased at Respondent's store or that they are counterfeit. Lorillard's *ex parte* affidavits are simply insufficient to establish its right to this drastic remedy by clear and unequivocal evidence, especially after a *pro se* defendant requested that Lorillard "prove it." Rather than proceed with an evidentiary hearing after the district court indicated that it would appoint counsel for Engida, Lorillard filed this hasty, ill-conceived appeal.

The Affidavit of William E. Blakslee is far too equivocal to establish that Lorillard will prevail on the merits at trial. (Aplt. App. at 79-80). Blakslee has been a Lorillard employee for almost 25 years. There is no evidence in the record, for example, about what Blakslee means when he says Blakslee and another Lorillard employee "secured" counterfeit Newport® cigarettes from I & G Liquors. (Aplt. App. at 80). The Affidavit does not say how Blakslee gained access to the premises, or whether Blakslee disclosed who he represented. The Affidavit does not describe Engida or identify him as having been present when

Blakslee "secured" his cigarettes. Coupled with Petitioner's failure to obtain any Newports® – real or counterfeit, during the February 14 search, there is little, if any basis to conclude that Petitioner would establish its claims against Engida by a preponderance of evidence at trial, and certainly no basis to conclude that injunctive relief was appropriate to prevent future violations of the Lanham Act.

2. Petitioner Presented No Evidence That A Preliminary Injunction Would Be In The Public Interest.

Petitioner failed to present any evidence establishing this traditional preliminary injunction factor by clear and unequivocal evidence. Petitioner argued at length in its district court pleadings about the strength and importance of Lorillard's trademarks and the likelihood of confusion, but Petitioner appears merely to assume that Lorillard's interests are the same as the public's interest. Although it may be accurate to state that "what's good for Lorillard is good for America," the district court cannot simply assume that fact without the benefit of evidence and an adversarial hearing.

Certainly, there is a general public interest in stopping the flow and sale of counterfeit goods. The petition here devotes many pages to secondary sources, all of which are outside the record on appeal, detailing the scope and costs of the counterfeiting problem. The question, however, is whether the proposed injunction in this case does anything to advance that public interest. Lorillard offered no evidence answering this question in the affirmative. Indeed, in the legislative history of the Anti-Counterfeiting Act, Congress itself recognized that unwitting retailers

who sell counterfeit products are themselves injured by the counterfeiting of trademarked merchandise. *See,* S. Rep. 104-177, p. 2. It is difficult to discern how subjecting an unwitting retailer like Engida to contempt sanctions would advance the public interest in stopping the flow of counterfeit goods.

In contrast, the public has a general interest in limiting the exercise of judicial power to those situations where such exercise is truly necessary. This general principle is reflected in the limited jurisdiction of the federal courts and the jurisprudential rules of standing, mootness, and a live case or controversy. As argued below, the proposed preliminary injunction here was not necessary to prevent any real threat of continuing injury while this case is pending. Therefore, it was in the public interest for the district court to deny the affirmative relief requested by Lorillard.

In short, Lorillard has failed to establish by clear and convincing evidence that a preliminary injunction would be in the public interest. Sweeping generalizations about the scope and cost of the counterfeiting problem and secondary sources are no substitute for competent evidence, presented to the district court, and subject to the test of cross-examination and rebuttal.

3. Petitioner Failed To Present Evidence Demonstrating Irreparable Injury.

Petitioner argues simply that it has satisfied its burden of proof on this factor based on a presumption of irreparable harm following an act of trademark infringement. Petitioner conflates the concept of irreparable harm from past violations as used in the damages context with

the concept of irreparable harm from future violations as used in the preliminary injunction context.

As a matter of fact, the district court here heard no evidence at all concerning alleged harm to Lorillard, let alone evidence demonstrating a threat of future irreparable harm if an injunction did not issue. In fact, the only information provided to the district court indicated the exact opposite – that Engida was not selling any Lorillard products at all, genuine or counterfeit. Thus, there was no evidence presented at the show cause hearing indicating that Respondent even had the ability to commit future acts of trademark infringement.

Further, in the pre-*eBay* line of cases relied on by Petitioner, the presumption of irreparable injury was not absolute; for example, a district court could properly deny an injunction where there was no evidence of a likelihood of future infringement. *See generally, Gucci America, Inc. v. Daffy's Inc.*, 354 F.3d 228 (3rd Cir. 2003). Although the district court here may not have used the actual words "irreparable injury," it is clear that the district court found no threat of continuing harm on the record before it. (Aplt. App. at 107).

4. Lorillard Failed To Demonstrate Any Harm In The Absence Of An Injunction.

Lorillard introduced no competent evidence that it would suffer any harm in the absence of preliminary injunctive relief. Indeed, the only real evidence indicates the opposite. Again, the Tenth Circuit decision properly focused on the risk of future violations, noting "[T]he raid did not indicate a substantial likelihood that [Respondent]

had or would sell any additional counterfeit Newport cigarettes." (Cert. Pet. App. at 6a).

In a similar vein, Lorillard did not provide any evidence to the district court that an injunction would actually reduce the possibility of future, unintentional sales of counterfeit cigarettes. According to Petitioner, the law already imposes strict liability on a retailer like Respondent for the sale of counterfeit products. In a case such as this one, where a lay person cannot distinguish between genuine and counterfeit product, it is unclear how an injunction adds anything of value to the equation.

Of course, if there is no evidence on one side of a balancing test, then the scale must tip in the other direction. In other words, if Lorillard has not demonstrated a risk of future harm in the absence of an injunction, then *any* harm to Respondent necessarily outweighs the alleged harm to Lorillard.

C. The Court Of Appeals Opinion Correctly Applied The Irreparable Harm Factor And Did Not Create A Circuit Split.

Petitioner asserts that the Tenth Circuit erred by failing to presume irreparable harm for the purposes of a preliminary injunction from a past violation of the Lanham Act. Petitioner further asserts that the Tenth Circuit's decision on that issue is in conflict with other circuits. The Tenth Circuit decision, however, is much more limited in scope and does not conflict with the other circuit decisions cited by Petitioner.

The Tenth Circuit merely held that, on the record before the district court, it was not an abuse of discretion

to deny preliminary injunctive relief. (Cert. Pet. App. at 5a). The Tenth Circuit correctly focused on the threat of future harm because it is that threat against which preliminary injunctions are directed. "The record does not establish that Lorillard would suffer great and certain harm in the absence of an injunction." (*Id.*) The Tenth Circuit also noted that the raid on Respondent's store did not reveal any additional counterfeit cigarettes, "undermining the likelihood of future injury to Lorillard." (*Id.*)

All of the cases relied on by Petitioner to show the purported conflict with the Tenth Circuit were decided prior to this Court's decision in *eBay*. In that case, this Court held that the traditional principles of equity should guide applications for injunctive relief in context of disputes arising under the federal Patent Act, specifically referencing the familiar four-factor test. In so holding, the Court rejected the use of "categorical" and "general" rules, and the use of "expansive principles" applicable to a "broad swath of cases," to decide applications for injunctive relief under the intellectual property laws. *eBay*, 126 S.Ct. at 1839. In a 9-0 decision, the Court wrote:

> We take no position on whether permanent injunctive relief should or should not issue in this particular case. . . . We hold only that the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with the traditional principles of equity, in patent disputes ***no*** less that in other cases governed by such standards.

eBay, 126 S.Ct at 1841 (emphasis in original). The *eBay* opinion also recognizes, and relies upon, earlier Court authority holding that the four-part test applies in cases

under the Copyright Act. *Id.* at 1840. Similarly, the Lanham Act expressly incorporates "principles of equity" into the section authorizing injunctive relief. 15 U.S.C. § 1116(a).

In its efforts to manufacture a circuit split justifying certiorari, Petitioner relies almost exclusively on another Lorillard case, *Lorillard Tobacco Co. v. Amouri's Grand Foods, Inc.*, 453 F.3d 377 (6th Cir. 2006). However, *Amouri's* is legally and factually distinguishable from the instant appeal. Presumably because they were decided almost simultaneously, the *Amouri's* decision does not mention *eBay* at all. Likewise, Lorillard's opening brief in the court of appeals failed to even acknowledge the *eBay* decision.

In *Amouri's*, the district court issued an *ex parte* temporary restraining order and seizure order in circumstances initially similar to the circumstances present in this appeal. Upon execution of the seizure order, however, the two cases part ways. In *Amouri's*, the Marshals discovered additional packages of allegedly counterfeit Newport® cigarettes in the defendant's store, thus raising the specter of continuing sales of counterfeit cigarettes. 453 F.3d at 379. In stark contrast, Petitioner here came back empty handed following the search of Engida's business. Further, in *Amouri's*, there was a full and fair preliminary injunction hearing at which both parties were represented by counsel and had the opportunity to offer evidence. No such hearing occurred in the instant case.

Perhaps more importantly, the *Amouri's* court applied the very kind of general rule forbidden by *eBay*. In discussing the critical element of irreparable injury, the *Amouri's* court simply stated that "in cases of this type" irreparable

injury "ordinarily follows" when a likelihood of confusion appears from infringement. 453 F.3d at 381-82. This is precisely the kind of categorical rule or general principle applicable to a broad swath of cases that was condemned in the *eBay* decision.

Therefore, the Tenth Circuit's decision here did not conflict with *Amouri's* or any other case cited by Petitioner. First, none of the cases relied on by Petitioner had the opportunity to consider the reach of this Court's decision in *eBay*. It is simply premature to declare a circuit-split before the circuits have an adequate opportunity to rule on the impact of the *eBay* decision. In fact, the Sixth Circuit recently cited and applied *eBay* in a trademark infringement case, noting that the evidence showed a risk of future harm to the trademark holder if the defendant's ongoing conduct was not enjoined. *Audi AG v. D'Amato*, 469 F.3d 534, 550 (6th Cir. 2006). Second, the instant case is factually distinguishable because the district court implicitly found no threat of future violations and, thus, no risk of future irreparable harm.

D. The Court Of Appeals Opinion Correctly Applied The Balancing Of The Hardships Factor And Did Not Create A Circuit Split.

Petitioner argues that the Tenth Circuit opinion improperly considered four factors in assessing the potential harm to Respondent if the district court had granted a preliminary injunction. Petitioner then asserts that the Tenth Circuit's consideration of these factors is in conflict with other circuits. Petitioner fails to mention that it did not present any evidence at all on its side of the balancing test.

The Tenth Circuit opinion, however, did not elevate any of these four factors to the status of a *per se* rule applicable to preliminary injunctive relief generally. Rather, on the very limited record before it, the Tenth Circuit merely held that the district court did not abuse its discretion by taking these various factors into account and deciding that an injunction would weigh more heavily on Respondent than the lack of one would affect Petitioner.

Petitioner argues that it was improper for the Tenth Circuit to consider the harm to Respondent from proceeding in face of a known risk. The linchpin to this argument, of course, is that the risk be "known" by the actor. Petitioner asserts, without offering any evidence, that Respondent purchased the counterfeit Newport® cigarettes from some nefarious "unknown source" and, therefore, he knew there was a risk that the cigarettes were counterfeit. However, the only evidence in the record is that Respondent purchased cigarettes for resale from Sam's Club and the Cigarette Store. As the Tenth Circuit properly noted, where a retailer such as Respondent cannot tell genuine product from counterfeit product, an injunction imposes a Hobson's choice – either risk contempt sanctions for violating a federal court order or cease engaging in a lawful, economic activity.

In this sense, it was not the monetary consequences of stopping the sale of all Newport® cigarettes that weighed in the Tenth Circuit opinion, it was the risk of inadvertently violating a federal court order that weighed more heavily on Respondent. The Tenth Circuit opinion did not even mention monetary harm to Respondent if he decided to stop selling any Newport® cigarettes in response to a preliminary injunction.

In sum, the Tenth Circuit did not hold that a preliminary injunction can never enter against a small business; it did not hold that a preliminary injunction can never enter if it is difficult to distinguish genuine from counterfeit product; it did not hold that acting in light of a known risk is always a proper or improper factor for courts to consider; and, it did not mention monetary damages at all. It did not announce some grand new rule of injunction jurisprudence nor did it lay down a framework for the analysis of future cases.

Rather, on an abuse of discretion standard and with a limited record, the Tenth Circuit merely affirmed an inherently fact-specific, equitable decision that the past sale of two packs of counterfeit cigarettes did not justify the imposition of a preliminary injunction directed at preventing future violations. Indeed, in the post-*eBay* world, the district court and the Tenth Circuit properly took into account all relevant factors without relying on presumptions or *per se* rules that dictate what a court can and cannot consider.

For these reasons, there is no conflict between the Tenth Circuit's opinion and the other circuit opinions cited by Petitioner. Every case is different and preliminary injunction decisions are always fact-specific and equity-driven. If *eBay* teaches anything, it is that hard and fast rules must give way to the district court's traditional discretion in equity, which is exactly what the Tenth Circuit affirmed in this case.

III. CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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APPENDIX

Federal Rule of Civil Procedure
Rule 65. Injunctions

(a) Preliminary Injunction.

(1) *Notice.* No preliminary injunction shall be issued without notice to the adverse party.

(2) *Consolidation of Hearing With Trial on Merits.* Before or after the commencement of the hearing of an application for a preliminary injunction, the court may order the trial of the action on the merits to be advanced and consolidated with the hearing of the application. Even when this consolidation is not ordered, any evidence received upon an application for a preliminary injunction which would be admissible upon the trial on the merits becomes part of the record on the trial and need not be repeated upon the trial. This subdivision (a)(2) shall be so construed and applied as to save to the parties any rights they may have to trial by jury.

(b) Temporary Restraining Order; Notice; Hearing; Duration. A temporary restraining order may be granted without written or oral notice to the adverse party or that party's attorney only if (1) it clearly appears from specific facts shown by affidavit or by the verified complaint that immediate and irreparable injury, loss, or damage will result to the applicant before the adverse party or that party's attorney can be heard in opposition, and (2) the applicant's attorney certifies to the court in writing the efforts, if any, which have been made to give the notice and the reasons supporting the claim that

notice should not be required. Every temporary restraining order granted without notice shall be indorsed with the date and hour of issuance; shall be filed forthwith in the clerk's office and entered of record; shall define the injury and state why it is irreparable and why the order was granted without notice; and shall expire by its terms within such time after entry, not to exceed 10 days, as the court fixes, unless within the time so fixed the order, for good cause shown, is extended for a like period or unless the party against whom the order is directed consents that it may be extended for a longer period. The reasons for the extension shall be entered of record. In case a temporary restraining order is granted without notice, the motion for a preliminary injunction shall be set down for hearing at the earliest possible time and takes precedence of all matters except older matters of the same character; and when the motion comes on for hearing the party who obtained the temporary restraining order shall proceed with the application for a preliminary injunction and, if the party does not do so, the court shall dissolve the temporary restraining order. On 2 days' notice to the party who obtained the temporary restraining order without notice or on such shorter notice to that party as the court may prescribe, the adverse party may appear and move its dissolution or modification and in that event the court shall proceed to hear and determine such motion as expeditiously as the ends of justice require.

(c) **Security.** No restraining order or preliminary injunction shall issue except upon the giving of security by the applicant, in such sum as the court deems proper, for the payment of such costs and damages as may be incurred or suffered by any party who is found to have been wrongfully enjoined or restrained. No such security shall

be required of the United States or of an officer or agency thereof.

The provisions of Rule 65.1 apply to a surety upon a bond or undertaking under this rule.

(d) Form and Scope of Injunction or Restraining Order. Every order granting an injunction and every restraining order shall set forth the reasons for its issuance; shall be specific in terms; shall describe in reasonable detail, and not by reference to the complaint or other document, the act or acts sought to be restrained; and is binding only upon the parties to the action, their officers, agents, servants, employees, and attorneys, and upon those persons in active concert or participation with them who receive actual notice of the order by personal service or otherwise.

(e) Employer and Employee; Interpleader; Constitutional Cases. These rules do not modify any statute of the United States relating to temporary restraining orders and preliminary injunctions in actions affecting employer and employee; or the provisions of Title 28, U.S.C., § 2361, relating to preliminary injunctions in actions of interpleader or in the nature of interpleader; or Title 28, U.S.C., § 2284, relating to actions required by Act of Congress to be heard and determined by a district court of three judges.

(f) Copyright Impoundment. This rule applies to copyright impoundment proceedings.

[Amended December 27, 1946, effective March 19, 1948; December 29, 1948, effective October 20, 1949; February

28, 1966, effective July 1, 1966; March 2, 1987, effective August 1, 1987; April 23, 2001, effective December 1, 2001.]

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No. 06-1440

IN THE
Supreme Court of the United States

LORILLARD TOBACCO COMPANY,
Petitioner,

v.

ISAAC G. ENGIDA, D.B.A. I & G LIQUORS,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE TENTH CIRCUIT

REPLY BRIEF FOR PETITIONER

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REPLY BRIEF FOR PETITIONER

Respondent recognizes that the Petition presents "important questions at the intersection of trademark infringement law and preliminary injunction standards." Br. in Opp. 11. Respondent does not dispute that the sale of counterfeit goods is an extremely serious problem, and that Congress has enacted special legislation to combat it. The brief of *amici curiae* Washington Legal Foundation and the National Association of Manufacturers confirms the exceptional importance of the questions presented.

Respondent's primary contention is that this case is a poor vehicle for deciding the important questions presented by the Petition, because the record is not fully developed. That is not so. The record in this case establishes all the facts necessary to decide the questions presented. Neither the district court nor the court of appeals questioned the undisputed evidence that Respondent sold counterfeit Newport cigarettes. At issue is the appropriateness of a decision by the court of appeals affirming the denial of a preliminary injunction prohibiting further sales of counterfeit cigarettes based on factors that other courts of appeals have expressly rejected. The issues are important precisely because preliminary injunctions are a crucial weapon in the fight against counterfeiting and those who profit from such illicit activity. The Court should therefore grant the Petition.

1. Respondent's contention (Br. in Opp. 7-11) that the record is too poorly developed to support review by this Court is incorrect. As Respondent acknowledges (*id.* at 7), Petitioner submitted three sworn affidavits in support of a preliminary injunction. William Blakslee stated under oath that he purchased counterfeit cigarettes from Respondent's business. Ashley Pughes stated under oath that, in response to a complaint from another retailer, he obtained a counterfeit package of

cigarettes from Respondent's business by exchanging it for a genuine package of Newport cigarettes. In a third affidavit, Edward O'Brien stated under oath that he examined the two packages in detail and, based on his "specialized knowledge of Lorillard's packaging and other quality assurance aspects of genuine Lorillard cigarettes," confirmed that they were counterfeits. This evidence was undisputed. Neither court below suggested that it was in doubt for purposes of a preliminary injunction.

Respondent incorrectly asserts that the affidavits should be ignored because the witnesses did not present live testimony at an evidentiary hearing. There is no requirement that preliminary injunctions be based on live testimony. To the contrary, preliminary injunctions frequently are granted on the basis of affidavits. *E.g.*, 13 *Moore's Federal Practice* § 65.23 (3d ed.) ("Submission of affidavits in support of a motion for a preliminary injunction is customary."); *United Healthcare Ins. Co.* v. *AdvancePCS*, 316 F.3d 737, 739 (8th Cir. 2002) ("Because undisputed evidence existed in the affidavits to support the preliminary injunction, we affirm."); *Bradley* v. *Pittsburgh Bd. of Educ.*, 910 F.2d 1172, 1176 (3d Cir. 1990) ("[A] decision may be based on affidavits and other documentary evidence if the facts are undisputed and the relevant factual issues are resolved.").[1]

Respondent next contends that Petitioner failed to submit proposed findings of fact and conclusions of law, and that the district court failed to enter findings of fact and conclusions of law as required by Federal Rule of Civil Procedure 52. But Rule 52(a) specifically provides that "requests for findings are not necessary for purposes

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[1] Although live testimony is unnecessary, Petitioner brought one of its three witnesses to the hearing in case the district court wished to hear such testimony. Feb. 24, 2006 Tr. at 5 (A copy of this transcript is on file with the Clerk.).

of review," and that the district court's findings and conclusions may be oral rather than written. Here the district court orally announced its findings and conclusions. It stated: "The most reasonable inference that I can make . . . is that [Respondent] happened to accidentally come into possession in his business of two packages of – purported trademark violations of two packages of cigarettes." Feb. 24, 2006 Tr. at 8. Moreover, the district court expressly stated that it was denying a preliminary injunction. *Id.* at 2a-3a ("[Y]ou're asking for a preliminary injunction at this point"; "[Y]ou want me to continue this extraordinary relief by way of a preliminary injunction,"; "I'm not going to place the imprimatur of the federal government and the United States judiciary on a preliminary injunction"). The court of appeals found that the district court denied a motion for a preliminary injunction. Pet. App. 2a. ("[W]e find that during the February 24 hearing, the district court not only dissolved the TRO, but also denied preliminary injunctive relief.").

Respondent states that he intends to raise substantive due process and void-for-vagueness challenges to the strict liability provisions of Anti-Counterfeiting Consumer Protection Act. Respondent's intended constitutional challenges provide no reason to deny the petition for certiorari. Respondent's vagueness challenge is doomed to fail because unequivocal statutory language imposes liability on sellers of counterfeit goods without regard to their intent. *See* 15 U.S.C. §§ 1117(a) (separately imposing damages for "the violation of any right" of a trademark owner and for "a willful violation"); 1117(c)(1)-(2) (separately imposing statutory damages of $500 to $100,000 for any case involving the use of a counterfeit mark, and up to $1 million if the use was "willful"). Similarly, Respondent's substantive due process challenge lacks merit because a strict liability standard often applies in the civil context. *See, e.g.*, *TRM, Inc.* v. *United States, Dep't of Agric.*, 52 F.3d 941, 946 (11th Cir. 1995) (imposing strict liability on store owners

for trafficking in food stamps does not violate due process). The difficulty of preventing counterfeiting, and the wide range of statutory damages reflecting different degrees of culpability, place the strict liability provisions of the Lanham Act well within constitutional boundaries. In analogous situations the Constitution permits the imposition of a strict liability standard even the criminal context. *E.g.*, *United States* v. *Dotterweich*, 320 U.S. 277, 281 (1943). Thus, it is not arbitrary to apply a strict liability standard to the counterfeiting context.

2. There is likewise no basis for Respondent's argument (Br. in Opp. 11-16) that the factual predicates for injunctive relief are disputed.

a. *Likelihood of success on the merits.* Respondent contends that Petitioner "failed to even request an opportunity to present evidence in support of its motion." Br. in Opp. 11. Respondent goes so far as to assert that "Lorillard has not offered any evidence or testimony at all, let alone evidence establishing that the two offending packs were purchased at Respondent's store or that they are counterfeit." *Id.* at 12. These assertions are incorrect. Once again, Respondent ignores the sufficiency of the sworn affidavits that Petitioner presented to the district court, as well as the appearance of one of Petitioner's affiants at the hearing. *See supra* pp. 1-2, 4. Instead Respondent points to his unsworn statement – made after the district court denied a preliminary injunction – that "I'm sure I didn't do anything wrong. I buy my cigarettes from known sources, Sam's Club and the Cigarette Store." Feb. 24, 2006 Tr. at 9. That statement does not contradict Petitioner's evidence that counterfeit Newport cigarettes were sold and exchanged at Respondent's store.

Respondent also contends that there is no evidence that he personally sold the counterfeit cigarettes. Respondent Engida is doing business as I & G Liquors. It thus makes no difference whether the counterfeit cigarettes were sold by Mr. Engida himself or by one of

his employees. *E.g.*, *Meyer* v. *Holley*, 537 U.S. 280, 285 (2003) (Congress "legislates against a legal background of ordinary tort-related ' vicarious liability rules and consequently intends its legislation to incorporate those rules."). Respondent also contends that it is not clear what Mr. Blakslee meant by stating that he "secured" counterfeit cigarettes from Respondent's retail store. Mr. Blakslee's affidavit specifically states, "I *purchased* a pack of cigarettes from I and G Liquors on January 31, 2006." (emphasis added). There is also no merit to Respondent's complaint that the affidavit omitted irrelevant facts, *viz* that the Blakslee affidavit does not specify how he gained access to the store or whether he disclosed that he represented Petitioner. Br. in Opp. 12.[2]

In short, Petitioner presented undisputed evidence that Respondent sold counterfeit Newport cigarettes. Both courts below accepted Petitioner's uncontradicted evidence of such sales, but nevertheless denied a preliminary injunction.

b. *Irreparable Injury.* Respondent does not dispute that the sale of counterfeit goods causes irreparable harm to the trademark owner. As many courts have recognized, counterfeiting causes serious economic harm that is often difficult to quantify. *See* Pet. 12-14 & n.16 (collecting cases). Moreover, counterfeiting by definition deprives the trademark owner of control of its trademark. *Id.*

While not disputing these principles, Respondent denies that there was any evidence that Petitioner was likely to suffer harm from future violations. Br. in Opp.

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[2] Respondent contends that documents seized from his store are not in the record. These documents are described in the record (Pet. App. 2a), however, and they indicate that Respondent obtained cigarettes outside the usual channels of distribution.

15. That is incorrect. There is evidence that Respondent actually sold or exchanged counterfeit cigarettes on at least two occasions. He remains in business, and objected to a preliminary injunction on the ground that it might compel him to stop selling Newport cigarettes –indicating that he intended to continue selling them in the absence of an injunction. Respondent asserted that it is difficult for him to distinguish counterfeit cigarettes from the genuine article, and expressed no willingness to obtain cigarettes from different suppliers. The fact that no counterfeit cigarettes (and only 20 packages of cigarettes of any kind) were found during a second visit to the store may well be due to the fact that Respondent was tipped off to the raid.

c. *Balance of Hardships.* Respondent does not attempt to defend the court of appeals' determination that the hardship to Petitioner of denying a preliminary injunction is outweighed by the hardship to Respondent of granting an injunction. Instead, Respondent argues that Petitioner presented no evidence of hardship at all. Br. in Opp. 19. That is incorrect. *See* section 2(b), *supra.* Respondent also asserts that a preliminary injunction is unnecessary because Congress has already imposed strict liability on sellers of counterfeit goods. That is also incorrect. While strict liability is a powerful weapon (and demonstrates how seriously Congress views the problem of counterfeiting), a preliminary injunction is an essential additional tool to stop sales of counterfeit goods while a case is pending.

d. *Public Interest.* Respondent also asserts (Br. in Opp. 13) that Petitioner presented no evidence that a preliminary injunction would serve the public interest, beyond arguing that it would benefit Petitioner. There can be no serious dispute that "Congress determined that 'a sound public policy requires that trademarks should receive nationally the greatest protection that can be given them.'" *Park 'n Fly* v. *Dollar Park & Fly, Inc.*, 469

U.S. 189, 193 (1985). This is especially true in the context of counterfeiting, which is "hard core" or "first degree" trademark infringement. *See* Pet. 2. Preventing the sale of any and all counterfeit goods is unquestionably in the public interest.

Respondent acknowledges the public interest "in stopping the flow and sale of counterfeit goods," (Br. in Opp. 13) but argues that in the legislative history of the Anti-Counterfeiting Act Congress recognized that "unwitting retailers" are themselves injured by counterfeiting, and therefore unwitting retailers should not be subjected to preliminary injunctions. *Id.*, citing S. Rep. 104-177, p. 2. This argument is baseless. Scienter is not an element of a claim based on the sale of counterfeit merchandise; and the statutory text plainly imposes strict liability on all retailers that sell counterfeit goods. *E.g.*, 5 U.S.C. § 1117(c). Moreover, it is far from clear that Respondent was an unwitting seller of counterfeit goods. And even if he was, once Petitioner presented evidence that he was selling counterfeit merchandise, he could no longer claim to be unaware of the problem.[3]

3. Respondent incorrectly contends (Br. in Opp. 16-21) that the court of appeals decision does not conflict with any decision of any other court of appeals.

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[3] To the extent that legislative history is relevant, a more pertinent statement is that irreparable injury "will not ordinarily be a difficult showing in a counterfeit case. . . . The courts have repeatedly held that the distribution of infringing goods constitutes irreparable injury sufficient to order preliminary relief. . . . Since the marks at issue here are not merely infringing but counterfeit marks, this conclusion will be still more easily reached." Joint Statement on Trademark Counterfeiting Legislation, 130 Cong. Rec. H12076, H12081 (1984) (citations omitted).

a. The court of appeals held that a retailer's sale of counterfeit goods does "not necessarily" demonstrate the "certain and great harm" harm necessary for a preliminary injunction. Pet. App. 5a. In a virtually identical case, the Sixth Circuit held exactly the opposite. *Lorillard Tobacco Co.* v. *Amouri's Grand Foods, Inc.*, 453 F.3d 377, 382 (6th Cir. 2006). The Sixth Circuit concluded that: (1) the retailer's sale of counterfeit goods establishes that the manufacturer is likely to succeed on the merits; (2) irreparable harm is established by the manufacturer's loss of control over the quality of goods that bear its trademark; (3) the harm visited on the retailer is "hardly a legally cognizable one," since it is simply prohibited from engaging in further illegal acts; and (4) the public interest points strongly in favor of granting injunctive relief.

Respondent asserts that "[a]ll of the cases relied on by Petitioner to show the purported conflict with the Tenth Circuit were decided prior to this Court's decision in" *eBay* v. *MercExchange, LLC*, 126 S. Ct. 1837 (2006). In fact, *Amouri's* was decided *after* this Court's decision in *eBay*. And as Respondent acknowledges, the Sixth Circuit subsequently held that a preliminary injunction was warranted in a trademark infringement opinion that cites *eBay* and casts no doubt on the correctness of the decision in *Amouri's*. *See Audi AG* v. *D'Amato*, 469 F.3d 534, 550 (6th Cir. 2006).

Contrary to Respondent's assertion, the Sixth Circuit's decision in *Amouri's* does not adopt "precisely the kind of categorical rule or general principle applicable to a broad swath of cases that was condemned in the *eBay* decision." Br. in Opp. 19. *eBay* holds that the decision whether to grant or deny injunctive relief in patent infringement cases "rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with the traditional principles of equity." 126 S. Ct. at 1841. The decisions of the Sixth

Circuit and other courts of appeals apply traditional principles of equity to the counterfeiting context. Because selling counterfeit goods is a strict liability offense, proof of such a sale necessarily establishes a likelihood of success on the merits. And because selling counterfeit goods deprives the trademark owner of control over goods bearing the trademark, irreparable harm "ordinarily" follows from the sale of such goods. Moreover, other circuits have held that the factors the court of appeals relied upon as a basis for holding that the harm to Respondent outweighed the harm to Petitioner are invalid and an abuse of discretion under traditional equitable principles. *See eBay*, 126 S. Ct. at 1841-42 (Roberts, C.J., concurring) ("Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike.") (quoting *Martin* v. *Franklin Capital Corp.*, 546 U.S. 132, 139 (2005)).[4]

b. Respondent barely tries to defend the court of appeals' reliance on possible harm to the retailer from assuming the consequences of a known risk of infringement, possible monetary harm from lost sales, the difficulty of distinguishing counterfeit goods from genuine goods, and the retailer's relative size – factors that other courts of appeals have rejected. *See* Br. in Opp. 19-21. Respondent observes that the court of appeals did not hold that a preliminary injunction must be denied in *every*

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[4] Respondent contends that *Amouri's* is distinguishable on its facts, because in that case additional packages of counterfeit cigarettes were found when the seizure order was executed. But the Sixth Circuit's decision rested squarely on the fact that "[g]oods [were] being offered for sale that purport, via their use of Lorillard's marks, to have been produced by Lorillard, but that were not." 453 F.3d at 382. The court made no distinction between the packages obtained pursuant to the seizure and those that were purchased by Lorillard employees.

counterfeiting case in which a retailer establishes one or more of these factors. That would have resulted in an even worse decision, but it does not change the fact that other courts of appeals have held that it is an abuse of discretion for a district court to rely upon these factors as a basis for denying an injunction in *any* counterfeiting case. *See* Pet. 17-24. In *Amouri's*, for example, the Sixth Circuit held that it was an abuse of discretion for the district court to deny a preliminary injunction, and specifically rejected the argument that it is proper to deny an injunction on the ground that counterfeits are difficult to detect. *See* Pet. 13 n.15. In this case, the court of appeals held that it is appropriate to deny a preliminary injunction based on exactly the factors that other courts of appeals have rejected – factors that are extremely common in counterfeiting cases. The court of appeals' decision thus poses a serious threat to efforts to combat the serious problem of counterfeiting.

The courts of appeals have come to different conclusions on important questions of federal law that can only be reconciled by this Court. Respondent's argument that this case is not a good vehicle to decide the questions presented is unpersuasive.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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IN THE

Supreme Court of the United States

LORILLARD TOBACCO COMPANY,
Petitioner,

v.

ISAAC G. ENGIDA, D.B.A. I & G LIQUORS,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Tenth Circuit

BRIEF OF WASHINGTON LEGAL FOUNDATION AND NATIONAL ASSOCIATION OF MANUFACTURERS AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

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QUESTIONS PRESENTED

1. Whether undisputed evidence that a retailer sold counterfeit good establishes "irreparable harm" that supports the entry of a preliminary injunction in a trademark infringement case. The Tenth Circuit, in conflict with other circuits, held that it does not.

2. Whether a court, when balancing the hardships for purposes of a preliminary injunction motion in a counterfeiting case, may consider: (i) harm to the retailer that results from incurring a known risk of infringement; (ii) monetary harm to the retailer from lost sales if the injunction is granted; (iii) the retailer's difficulty in distinguishing counterfeit goods from genuine goods; and (iv) the size of the retailer's business. The Tenth Circuit, in conflict with other circuits, held that the court may deny a motion for a preliminary injunction on the basis of these factors.

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BRIEF OF WASHINGTON LEGAL FOUNDATION AND NATIONAL ASSOCIATION OF MANUFACTURERS AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

INTERESTS OF *AMICI CURIAE*

The Washington Legal Foundation (WLF) is a non-profit public interest law and policy center with supporters in all 50 states.[1] WLF devotes a substantial portion of its resources to defending free-enterprise, individual rights, and a limited and accountable government. In particular, WLF has frequently appeared in this and other federal and state courts to protect property rights, including intellectual property rights, against intrusion by governments and third parties. *See, e.g., Ferring v. Barr Laboratories*, 437 F.3d 1181 (Fed. Cir.), *cert. denied*, 127 S. Ct. 515 (2006); *Brown v. Legal Found. of Washington*, 538 U.S. 216 (2003); *Phillips v. Washington Legal Found.*, 524 U.S. 156 (1998).

The National Association of Manufacturers is the nation's largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. The NAM's mission is to enhance the competitiveness of manufacturers by shaping a legislative and regulatory environment conducive to U.S. economic growth and to increased understanding among policymakers, the media, and the general public about the vital role of manufacturing to America's economic future and living standards.

Amici are concerned that the decision below, if allowed to stand, will set back efforts to control the serious economic

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[1] Pursuant to Supreme Court Rule 37.6, amici state that no counsel for a party authored this brief in whole or in part; and that no person or entity, other than amici and their counsel, contributed monetarily to the preparation and submission of this brief.

problems caused by the counterfeiting of goods protected by registered trademarks. In conflict with other appeals courts, the Tenth Circuit established criteria that will make it difficult for trademark holders to obtain injunctions against retailers shown to have sold counterfeit goods. Such injunctions play a key role in denying sales outlets for the manufacturers of counterfeit goods.

WLF and NAM have no direct financial interest in the outcome of this case. *Amici* are filing due solely to their interests in protecting the property rights of trademark holders and in preventing manufacturers and sellers of counterfeit goods from deceiving consumers into thinking they are purchasing genuine goods. *Amici* are filing this brief with the consent of all parties. The written consents have been lodged with the Clerk of the Court.

STATEMENT OF THE CASE

This petition raises important questions regarding the protection of intellectual property rights. Congress has recognized that trafficking in counterfeit goods is a serious economic problem, and has responded with a series of laws designed both to protect consumers and to provide trademark owners with the tools necessary to protect their property rights. The decision below severely undercuts one of the most significant tools: federal court injunctions against retailers who sell counterfeit goods. That decision directly conflicts with other appeals courts decisions, which hold that injunctions are warranted in identical situations.

The facts of this case are largely undisputed. Respondent Isaac G. Engida operates a retail business in Denver, Colorado that is licensed to sell cigarettes. Representatives of Petitioner Lorillard Tobacco Company purchased two packages of

counterfeit Newport brand cigarettes from his store on January 31, 2006. On the basis of that sale, Lorillard filed suit against Engida, alleging that Engida has violated the anti-counterfeiting provisions of §§ 32 and 43 of the Lanham Act, 15 U.S.C. §§ 1114 and 1125.

Lorillard subsequently filed a motion for a preliminary injunction prohibiting Engida from selling any additional counterfeit cigarettes that falsely indicated that they had been manufactured by Lorillard. Engida did not contest that he had sold counterfeit cigarettes. Nor did he present evidence that such infringing sales would not happen again – such as that he had implemented a program designed to detect counterfeit cigarettes before they were offered for sale, or that the circumstances that had led to his acquisition of counterfeit cigarettes could not possibly be repeated. To the contrary, Engida admitted that there was a very real possibility that future sales of cigarettes bearing the Newport trademark would include counterfeits – such that if an injunction were issued, he would "probably" stop selling Newports rather than "inadvertently" violate the injunction. Pet. App. 6a.[2]

The district judge denied the motion without issuing a written opinion. Comments made by the judge during the hearing on the motion indicated that he based his ruling on the small size of Engida's business, the small number of counterfeit cigarettes whose sale was detected by Lorillard,

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[2] The district court record also indicated that Engida was not offering *any* Newport cigarettes for sale when, pursuant to a seizure order issued at Lorillard's request (*see* 15 U.S.C. § 1116(d)), U.S. Marshals visited Engida's store soon after the suit was filed. That visit uncovered business records indicating that Engida had purchased Newports from "an unknown source," Pet. App. 2a, outside of ordinary distribution channels.

and Engida's denial that he had knowingly sold counterfeit cigarettes. *Id.* 4a-5a.

The court of appeals affirmed, rejecting Lorillard's claim that the district court had relied on legally impermissible criteria in denying the injunction. *Id.* 1a-6a. The court agreed with the district court that proof that a defendant had sold counterfeit goods was not necessarily sufficient to demonstrate a likelihood that he would do so in the future, and thus that Lorillard's evidence of such sales was insufficient to establish irreparable harm. *Id.* 5a-6a. The appeals court also said that it was proper to consider, when weighing the harm to the defendant caused by an injunction, the defendant's "status as a small business," the defendant's denial of an intent to sell counterfeit goods, and that "an injunction would probably require it to stop selling *any* Newport® cigarettes while the suit was pending for fear that it would inadvertently violate the injunction." *Id.* 6a (emphasis in original).

REASONS FOR GRANTING THE PETITION

This case presents issues of exceptional importance to the entire business community and to the consuming public. The sale of goods bearing counterfeit trademarks causes billions of dollars of losses each year to the American economy, endangers public health and safety, and provides funding for organized crime and terrorist groups.

The decision below undercuts efforts to prevent such sales, by making it significantly more difficult for the owners of trademarks to obtain injunctions against the sales. The appeals court, in direct conflict with decisions from numerous other appeals courts, established extremely stringent legal standards for obtaining preliminary injunctions against merchants determined to have sold counterfeit goods. If,

based on those standards, companies such as Lorillard are unable to obtain injunctions against such merchants, they may well abandon litigation-based efforts to prevent sales at the retail level of goods bearing counterfeit trademarks – in many cases, the small damage awards available in Lanham Act cases of this sort would be insufficient by themselves to entice private enforcement efforts. Reduction in such private enforcement efforts would raise serious public health and safety concerns. In light of those concerns, review is warranted to resolve the conflict among the federal appeals courts regarding when injunctions should be issued against admitted violators of federal trademark law.

Review is also warranted because the decision below is so clearly at odds with congressional enactments designed to protect trademark rights, as well as with well-established principles of equity practice. The appeals court was correct that a plaintiff in a Lanham Act suit is not automatically *entitled* to injunctive relief based solely on a showing that the defendant has violated the Act. But Congress's expectation was that injunctions would be available in the great majority of cases. In this case, Engida introduced no evidence – such as evidence that there was no possibility of future violations – supporting a departure from the normal rule that proof of a past violation demonstrates irreparable harm sufficient to support an injunction. To the contrary, the appeals court upheld denial of a preliminary injunction *precisely because* Engida insisted that it was *highly likely* that he would once again (albeit inadvertently) sell counterfeit Newports. The Tenth Circuit's rule upholding virtually unlimited discretion to deny injunctions under such circumstances cannot be squared with traditional principles of equity. As Chief Justice Roberts, joined by Justices Scalia and Ginsburg, recently explained, "'Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that

like cases should be decided alike.'" *eBay v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1841-42 (2006) (Roberts, C.J., concurring) (quoting *Martin v. Franklin Capital Corp.*, 546 U.S. 132, 139 (2005)). Review is warranted to address the Tenth Circuit's abandonment of that rule.

I. REVIEW IS WARRANTED DUE TO THE EXCEPTIONAL IMPORTANCE OF ENSURING EFFECTIVE TOOLS FOR PREVENTING THE SALE OF COUNTERFEIT GOODS

One cannot easily overstate the serious economic problems, as well as the threats to public health and safety, created by the increased trafficking in counterfeit goods within this country. Review is warranted to ensure that the tools created by Congress for addressing those concerns are being utilized properly by the federal courts.

Federal law has long provided protection to the owners of trademarks.[3] The Lanham Act provides a trademark owner with a private right of action against, among others, those who use in commerce imitations of the trademark in connection with the sale of goods or services, where such use "is likely to cause confusion, or to cause mistake, or to deceive," 15 U.S.C. § 1114(1); or who, in connection with any goods or services, uses in commerce any word, term, name, or symbol likely to cause confusion as to the origin of the goods or services. 15 U.S.C. § 1125(a). Federal district courts are empowered to "grant injunctions, according to the principles of equity" to prevent violations of trademark rights and violations of § 1125(a). 15 U.S.C. § 1116(a).

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[3] A "trademark" includes, *inter alia*, "any word, name, symbol, or device" used by a person "to identify his or her goods . . . from those manufactured or sold by others." 15 U.S.C. § 1127.

Despite these legal protections, trafficking in counterfeit goods – that is, goods not produced by the trademark owner yet bearing a trademark that falsely indicates that the goods originated with that owner – has increased dramatically in recent years. *See* Kate Betts, *The Purse-Party Blues*, Time (Aug. 2, 2004) (worldwide production of counterfeit goods jumped 1700% between 1993 and 2004). Most estimates place the annual cost of counterfeit goods to the U.S. economy at $200-$250 billion. *See, e.g.*, Matthew Benjamin, *A World of Fakes: Counterfeit Goods Threaten Firms, Consumers and National Security,* U.S. News & World Report (July 14, 2003) at 46-47 (hereinafter "Benjamin") (reporting FBI estimate of annual cost). That figure is twice as much as Americans spent in 2005 on new automobiles, twice as much as they spent on higher education, and twice as much as they spent on household electric bills. *See* U.S. Department of Commerce, Bureau of Economic Analysis, *National Income and Product Accounts,* Table 2.4.5 (Aug. 2006).[4] Worldwide, the cost of counterfeit goods is estimated at up to $514 billion annually. Business Week (Feb. 7, 2005) at 56.

Counterfeit goods also pose a serious risk to public health and safety. Such goods often are inferior in quality to goods produced by the manufacturer who holds the trademark, so consumers who purchase products in reliance on the manufacturer's good reputation can risk injury or death when

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[4] By way of further contrast, bank robberies garner far more publicity and law enforcement attention than does counterfeiting of goods, yet they generally involve less than $70 million per year. *See* International Anticounterfeiting Coalition, *White Paper, The Negative Consequences of Intellectual Property Theft: Economic Harm, Threats to the Public Health and Safety, and Links to Organized Crime and Terrorist Organizations* (January 2005) at 4, *available at* www.iacc.org/resources/IACC_WhitePaper.pdf (hereinafter "IACC").

trademarks on which they rely turn out to be fake. To cite just a few examples involving prescription drugs, where the health dangers of counterfeit goods are self-evident:

- The World Health Organization (WHO) estimates that 10% of all pharmaceuticals are counterfeit; that number reaches as high as 60% in some developing countries. IACC at 7. According to the WHO, 16% of counterfeit drugs contain the wrong ingredients, 17% contain incorrect amounts of the proper ingredients, and 60% have no active ingredients whatsoever. *Id.*

- A May 2003 alert issued by the Food and Drug Administration (FDA) stated that nearly 200,000 bottles of counterfeit Lipitor (a prescription drug used to treat high cholesterol levels) had entered the U.S. market. FDA Talk Paper, *FDA Alerts Consumers and Health Professionals to Recall of Counterfeit Lipitor* (May 23, 2003), *available at* www.fda.gov/bbs/topics/ANSWERS/2003/ANS01224.html.

- Testimony before a House Subcommittee in June 2001 indicated that one major drug company had uncovered millions of fake yellow tablets made to look identical to the company's product yet consisting of "boric acid, floor wax and lead-based yellow paint used for road markings." Wisconsin State Journal, *Thompson Should Block Surge in Knockoff Drugs* (June 22, 2001).

Other products whose frequent counterfeiting has caused serious health and safety concerns include aircraft,[5] motor vehicles,[6] and infant formula.[7]

Because counterfeiting is such a high-profit activity whose perpetrators rarely receive substantial prison sentences, it has attracted considerable interest from organized crime and terrorist organizations. *See, e.g.,* Benjamin, at 46-47. For example, a counterfeit t-shirt ring linked to Egyptian cleric Sheik Omar Abdel Rahman helped pay for the 1993 attack on the World Trade Center. *Id.* The GAO has concluded that "terrorists earn funds through highly profitable crimes involving commodities such as contraband cigarettes, counterfeit goods, and illicit drugs." U.S. General Accounting Office, *Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Financing Mechanisms* (November 2003) at 3. Organized crime rings and terrorists who traffic in counterfeit cigarettes generally do not pay taxes on the cigarettes, resulting in substantial revenue losses for State governments as well. *See* Senate Committee on Homeland Security and Government Affairs, "Counterfeit Goods: Easy Cash for Criminals and Terrorists" (Testimony of Lt. John C. Stedman, Los Angeles County Sheriff's Department) (May 25, 2005).

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[5] *See, e.g., Imitating Property Is Theft*, The Economist (May 17, 2003) (attributing crash of Norwegian airliner that killed 55 people to substandard counterfeit bolts that caused the plane's tail to fall off).

[6] *See, e.g.,* George W. Abbott, Jr. and Lee S. Sporn, *Trademark Counterfeiting* § 1.03[C][3] (2002) (attributing bus crash that killed seven children to defective counterfeit brakes).

[7] *See, e.g.,* U.S. Dep't of Health and Human Services, *FDA Warns About Infant Formula Fraudulently Labeled as Nutramigen in Southern California*, HHS NEWS, P99-23 (Oct. 8, 1999).

Because those who manufacture counterfeit goods often operate undercover or overseas, their activities can be very difficult to detect. In many cases, the only means of controlling counterfeiting is to target those who engage in *retail sales* of counterfeit goods to the public. Congress has authorized those injured by retail sales of counterfeit goods to seek injunctive relief, 15 U.S.C. § 1116, lost profits and damages, 15 U.S.C. § 1117(a), and (in some cases) statutory damages. 15 U.S.C. § 1117(c) & (d). While actions for damages can serve to deter some retail sales of counterfeit goods, a trademark holder generally can hope to detect only a small number of such sales in a typical investigatory purchase – thereby reducing the potential size of any award of damages.[8] Potential damage awards are also reduced significantly in the absence of proof that the retailer was aware that the goods were counterfeit, 15 U.S.C. § 1117(c) & (d), and it can often be very difficult to prove such awareness.

As a result, injunctive relief is forced to play a crucial role in private enforcement of trademark law. A reputable retailer that has been enjoined from further counterfeit sales will be highly motivated to take steps to make absolutely sure that no such sales occur, in order to avoid contempt sanctions. Moreover, trademark holders are likely to be able to recover substantial monetary penalties from those retailers who take a more casual attitude toward counterfeiting and are discovered to have continued to sell counterfeit goods after being enjoined from doing so. Publicity surrounding such contempt proceedings serves to deter other retailers from engaging in similar misconduct. *Louis Vuitton, S.A. v. Lee*, 875 F.2d 584, 588 (7th Cir. 1989) (in light of the difficulty in detecting the

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[8] The two packages of counterfeit cigarettes detected here is typical in cases of this sort.

sale of counterfeit goods, heavy punishment of small retailers caught selling counterfeit goods is an appropriate means of deterring violations by others).

The decision below calls into question the effectiveness of suits against individual retailers shown to have violated the trademark laws. The Tenth Circuit affirmed the denial of a preliminary injunction against Engida's future sale of counterfeit Newports, despite: (1) on the *only* occasion on which his supply of Newports was checked, it included counterfeit Newports; (2) the absence of evidence that his sale of counterfeit Newports was a non-repeatable aberration or that he had implemented a program designed to detect counterfeit cigarettes before they were offered for sale; and (3) an admission by Engida that in the absence of an injunction he would continue to sell Newports and that it was likely that he would once again (albeit inadvertently) sell counterfeit Newports. If an injunction is properly denied under those circumstances, it is hard to imagine when an injunction could *ever* be obtained against a retailer shown to have sold a small quantity of counterfeit goods. Under the appeals court's standards, manufacturers will have a significantly reduced incentive to bring private enforcement actions against retailers who sell counterfeit versions of their goods.

Given the importance of the issues involved, review is warranted to determine whether the Tenth Circuit's standards for issuing injunctions adhere to Congress's mandate and traditional rules of equity. By adopting several statutes in the past decade designed to strengthen private enforcement of trademark laws, Congress has indicated both an awareness of the seriousness of the problems caused by counterfeiting and that private enforcement is to play an important part in combating those problems. *See, e.g.,* Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, 98 Stat. 1837 (1984)

(granting federal courts authority to issue *ex parte* seizure orders against sellers of counterfeit goods) (*see* 15 U.S.C. § 1116(d)); Anticounterfeiting Consumer Protection Act of 1996, Pub. L. No. 104-153, 110 Stat. 1386 (1996) (authorizing statutory damage awards against sellers of counterfeit goods) (*see* 15 U.S.C. § 1117(c) & (d)); Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, 120 Stat. 285 (2006) (authorizing judgments ordering forfeiture of profits and equipment of counterfeiters). Review is warranted to determine whether the Tenth Circuit's standards impose inappropriate obstacles in the path of those seeking to bring private enforcement actions.

Review is particularly important in light of ongoing efforts by the federal government to convince foreign governments to protect intellectual property rights abroad. U.S. leadership in this area is critical to maintaining the credibility of those efforts. If we are unable to provide an effective system of injunctions and penalties for violations on our own soil, it will be difficult to convince others to do so on theirs.

II. REVIEW IS WARRANTED BECAUSE THE DECISION BELOW IRRECONCILABLY CONFLICTS WITH DECISIONS FROM OTHER FEDERAL COURTS OF APPEALS

Review is also warranted because the Tenth Circuit's decision establishes legal standards for granting preliminary injunctions that are in direct conflict with standards established by other federal courts of appeals. The petition provides a detailed account of those conflicts, which relate to five separate points of law. *Amici* will not repeat that account here; rather, we wish to focus on the conflict addressed in the first

Question Presented: the legal standards for establishing "irreparable harm" in a trademark infringement case.

The Sixth Circuit reversed the denial of a preliminary injunction in a trademark infringement case involving a fact pattern indistinguishable from this case in all material respects. In that case, *Lorillard Tobacco Co. v. Amouri's Grand Foods, Inc.*, 453 F.3d 377 (6th Cir. 2006), representatives of Lorillard obtained eight packages of Newport cigarettes on two occasions from a small retail store in Michigan; seven of those packages were determined to be counterfeit. The district court nonetheless denied Lorillard's motion for a preliminary injunction, holding that the equities favored the defendant. Finding that Lorillard had established "unequivocal[]" entitlement to an injunction as a matter of law, the Sixth Circuit reversed and remanded with directions that the district court issue a preliminary injunction. 453 F.3d at 380. The Sixth Circuit held that Lorillard had "unquestionably" made each of the four showings necessary to obtain a preliminary injunction – likelihood of success on the merits, irreparable harm in the absence of an injunction, the balance of hardships favored the party seeking the injunction, and issuance of an injunction served the public interest. *Id.*

With respect to irreparable harm, the Sixth Circuit held that Lorillard met its burden of proof by demonstrating that the defendant had sold products bearing fake Lorillard trademarks, thereby establishing a:

> [L]oss of control over the quality of goods that bear its marks. . . . In light of Lorillard's submission of sworn declarations that the packages were counterfeit and Grand Foods' failure to offer any evidence to the contrary, there is no doubt on that score: Goods are being offered for sale that purport, via use of Lorillard's

> marks, to have been produced by Lorillard, but they were not. Hence, we see no reason why the conclusion as to irreparable harm should not operate in this case.

Id. at 382.[9]

The Tenth Circuit's efforts to distinguish *Grand Foods* are wholly unavailing. The Tenth Circuit noted a single factual distinction between the two cases, both of which involved *ex parte* seizure orders issued pursuant to 15 U.S.C. § 1116(d): unlike in *Grand Foods*, on the day on which the seizure order was executed in this case, Engida was discovered not to be offering *any* Newport cigarettes for sale.[10] The appeals court asserted, "Unlike [*Grand Foods*], the raid on I and G premises did not reveal evidence of additional counterfeit Newport® cigarettes, undermining the likelihood of future injury to Lorillard." Pet. App. 5a.

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[9] The Sixth Circuit decision is consistent with the position of numerous other federal appeals courts that a trademark plaintiff seeking a preliminary injunction establishes irreparable harm by demonstrating that the defendant has been selling counterfeit goods – at least in the absence of evidence from the defendant that future counterfeit sales are unlikely. *See, e.g., New Kayak Pool Corp. v. R&P Pools, Inc.*, 246 F.3d 183, 185 (2d Cir. 2001); *Kos Pharmaceuticals, Inc. v. Andrx Corp.*, 369 F.3d 700, 725 (3d Cir. 2004); *Levi Strauss & Co. v. Sunrise Int'l Trading*, 51 F.3d 982, 986 (11th Cir. 1995).

[10] As the petition notes, on the first occasion on which U.S. Marshals attempted to execute the seizure order in this case, Engida's store was discovered to be locked during normal business hours. Pet. 7. From this sequence of events, one could reasonably draw an inference of guilty knowledge: Engida, having been alerted to an impending visit from U.S. Marshals, chose to temporarily remove all Newports (and virtually all other cigarettes) from the store.

But that factual difference would serve to distinguish *Grand Foods* only if Engida were claiming that, prior to execution of the seizure order, he had decided to stop selling Newports. Engida makes no such claim. To the contrary, throughout this litigation he has expressed a desire to continue selling Newport cigarettes. Indeed, a principal basis for his "hardship" claim is that an injunction would interfere with his desire to continue to sell Newports, because he would probably feel compelled to respond to an injunction by ceasing all Newport sales for fear that he "would inadvertently violate the injunction." *Id.* 6a. Accordingly, the two cases are factually indistinguishable in all relevant respects: in both cases the defendant sold counterfeit Newports, in both cases the defendant offered no evidence regarding implementation of a program designed to foreclose the possibility of inadvertent sales of counterfeit cigarettes in the future, and in both cases the evidence demonstrated that the defendant intended to sell Newports in the future. Yet, in *Grand Foods*, the Sixth Circuit held that the plaintiff had established irreparable harm as a matter of law, while here the Tenth Circuit held that the same evidence did not establish irreparable harm. In this case, 100% of the Newport packages tested turned out to be counterfeit: two out of two. Given the lack of evidence that Engida was offering anything but counterfeit Newports for sale, the irreparable harm showing could not be more compelling.

In sum, review is warranted to resolve the irreconcilable conflict between the decision below and the decisions of other federal appeals courts, particularly the Sixth Circuit, regarding the legal standards for establishing irreparable harm in trademark infringement cases.

III. REVIEW IS WARRANTED BECAUSE THE DECISION BELOW IS AT ODDS WITH CONGRESSIONAL ENACTMENTS AND TRADITIONAL RULES OF EQUITY

Review is also warranted because the decision below is so clearly at odds with congressional enactments designed to protect trademark rights, as well as with well-established principles of equity practice. The facts here are typical of the fact pattern in numerous trademark infringement suits: a small retailer is shown to have sold counterfeit goods and has presented no evidence to counteract the natural inference that such sales will continue unless enjoined. Congress has made clear its belief that injunctive relief is appropriate under such circumstances.

The Trademark Counterfeiting Act of 1984 (TCA), Pub. L. No.98-473, 98 Stat. 1837 (1984), is perhaps Congress's strongest statement in support of granting injunctive relief against trademark violators. Among other provisions, the TCA authorized a trademark owner to obtain an *ex parte* temporary restraining order/seizure order from a federal district court, upon showing that a retailer has sold goods bearing a counterfeit trademark belonging to the owner and that the owner would suffer "immediate and irreparable injury" in the absence of a seizure. 15 U.S.C. § 1116(d)(4). The legislative history of the TCA makes clear that Congress intended the TCA's irreparable harm requirement to be understood in light of the well-established equity practice of federal courts, whereby evidence of past sales of infringing goods was deemed sufficient evidence of irreparable harm to mandate issuance of an injunction:

> ["Immediate and irreparable injury"] will not ordinarily be a difficult showing in a counterfeit case. . . . The

> courts have repeatedly held that the distribution of infringing goods constitutes irreparable injury sufficient to order preliminary relief. [Citations.] Since the marks at issue here are not merely infringing but counterfeit marks, this conclusion will be still more easily reached.

Joint Statement on Trademark Counterfeiting Legislation, 130 Cong. Rec. H12076, H12081 (1984), *reprinted in* Gilson, 4 *Trademark Protection and Practice*, § 34, 34-624.[11] There is every reason to suppose that Congress intended its understanding of what constitutes "irreparable harm" in a trademark case to apply not only to seizure orders but also to requests for preliminary injunctive relief pursuant to 15 U.S.C. § 1116(a) (which authorizes district courts hearing trademark cases "to grant injunctions, according to the principles of equity").

Amici do not mean to suggest that federal courts should eliminate "irreparable harm" as a separate prerequisite for issuance of a preliminary injunction and should automatically grant injunctions in all cases in which the other three prerequisites have been met. To the contrary, there undoubtedly are trademark cases in which injunctive relief is properly denied based on the absence of "irreparable harm," despite uncontradicted evidence that the defendant sold counterfeit goods.[12] But this is not such a case, and the Tenth

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[11] The Third Circuit cited that Joint Statement in support of a decision reversing a district court's refusal (based on the alleged absence of "irreparable harm") to grant a seizure order pursuant to 15 U.S.C. § 1116(d), despite evidence that the defendant had sold counterfeit goods. *Louis Vuitton v. White*, 945 F.2d 569, 575 (3d Cir. 1991).

[12] For example, if the defendant has gone out of business and there

(continued...)

Circuit made no findings suggesting that it is. As set forth above, Engida introduced no evidence to call into question the normal inference that evidence of past sales of counterfeit goods is evidence that such sales will continue in the absence of an injunction. Contrary to the Tenth Circuit's assertion, the fact that Engida had pulled all Newport cigarettes (and most other cigarettes as well) off his shelves on the day U.S. Marshals executed the seizure order in no way serves to "undermin[e] the likelihood of future injury to Lorillard." Pet. App. 5a. The fact remains that in *every* instance in which the authenticity of a package of Newport cigarettes sold by Engida was checked, the package was shown to be counterfeit. The Tenth Circuit erred as a matter of law in determining that such evidence – especially when combined with Engida's admitted desire to continue selling Newport cigarettes – does not establish "irreparable harm."

The Tenth Circuit's reliance on *eBay v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006), was misplaced. *eBay* stands for the proposition that a plaintiff who establishes that his patent has been infringed does not thereby automatically gain entitlement to an injunction against further infringement. Rather, the Court held:

> [T]he decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and . . . such discretion must be exercised consistent with traditional principles of equity.

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[12](...continued)
is little likelihood that it will resume operations, the plaintiff would have a difficult time demonstrating that it would be irreparably harmed if no injunction were issued. *See, e.g., The Affinity Group, Inc. v. Balser Wealth Management, L.L.C.*, ___ F. Supp. 2d ___, 2007 U.S. Dist. LEXIS 26331, *12 (S.D. Cal., Apr. 10, 2007).

eBay, 126 S. Ct. at 1841.

But *Grand Foods* and the numerous other federal appeals court decisions that conflict with the decision below do not hold that a trademark owner is automatically entitled to injunctive relief based on nothing more than evidence of past infringement. To the contrary, they have all directed district courts to apply traditional principles of equity (including the four traditional prerequisites) in deciding whether to grant preliminary injunctive relief. In providing guidance regarding what constitutes evidence of "irreparable harm," those decisions have directed that "irreparable harm" should be deemed to exist when, as here, the evidence demonstrates that the defendant has sold counterfeit goods in the past and the defendant has not come forward with evidence rebutting the natural inference that such sales will continue unless enjoined. *Amici* submit that such guidance is far more faithful to the mandate of Congress and traditional principles of equity than is the decision below.

The Tenth Circuit's ruling provides district courts with virtually unlimited discretion to deny injunctions in trademark infringement cases. Such broad discretion cannot be squared with traditional principles of equity. As Chief Justice Roberts, joined by Justices Scalia and Ginsburg, explained in his concurring opinion in *eBay*, "'Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike.'" *eBay*, 126 S. Ct. at 1841-42 (Roberts, C.J., concurring) (quoting *Martin v. Franklin Capital Corp.*, 546 U.S. 132, 139 (2005)). Review is warranted to address the Tenth Circuit's abandonment of that rule – with the result that district courts within the Tenth Circuit are left free to deny preliminary injunctions in trademark cases when other circuits mandate injunctions in factually indistinguishable cases.

CONCLUSION

Amici curiae Washington Legal Foundation and the National Association of Manufacturers respectfully request that the Court grant the petition for a writ of certiorari.

Respectfully submitted,

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